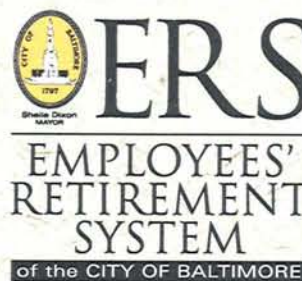


Employees' Retirement System of the City of Baltimore



Comprehensive Annual Financial Report Year Ended June 30, 2008

A Component Unit of the City of Baltimore, Maryland



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Employees' Retirement System of the City of Baltimore



CITY STREET OF BALTIMORE

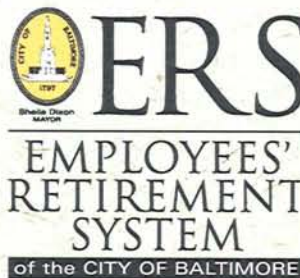
Comprehensive Annual Financial Report Year Ended June 30, 2008

A Component Unit of the City of Baltimore, Maryland

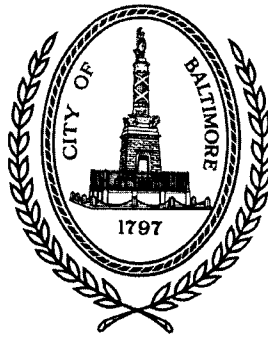
PREPARED BY:

Roselyn H. Spencer, EXECUTIVE DIRECTOR

Bernita Y. Kittrell, DEPUTY DIRECTOR



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Employees' Retirement System

Mission Statement

The System is committed to protecting and prudently investing member assets and providing accurate and timely retirement benefits with quality service to members and beneficiaries.

Standards of Conduct

As Trustees and Staff, we are committed to:

Safeguard the members' assets.

Strive for continuous improvement.

Maintain confidentiality as appropriate.

Effectively communicate accurate information.

Provide accountable and proactive leadership.

Conduct all business in a fair and respectful manner.

Foster an atmosphere of cooperation and teamwork.

Value members as clients and advocate on their behalf.

Comply with the System's plan provisions, policies and guidelines.

Work efficiently, simplify procedures, and minimize bureaucratic hurdles.

Form alliances and partnerships to benefit the membership and the System.

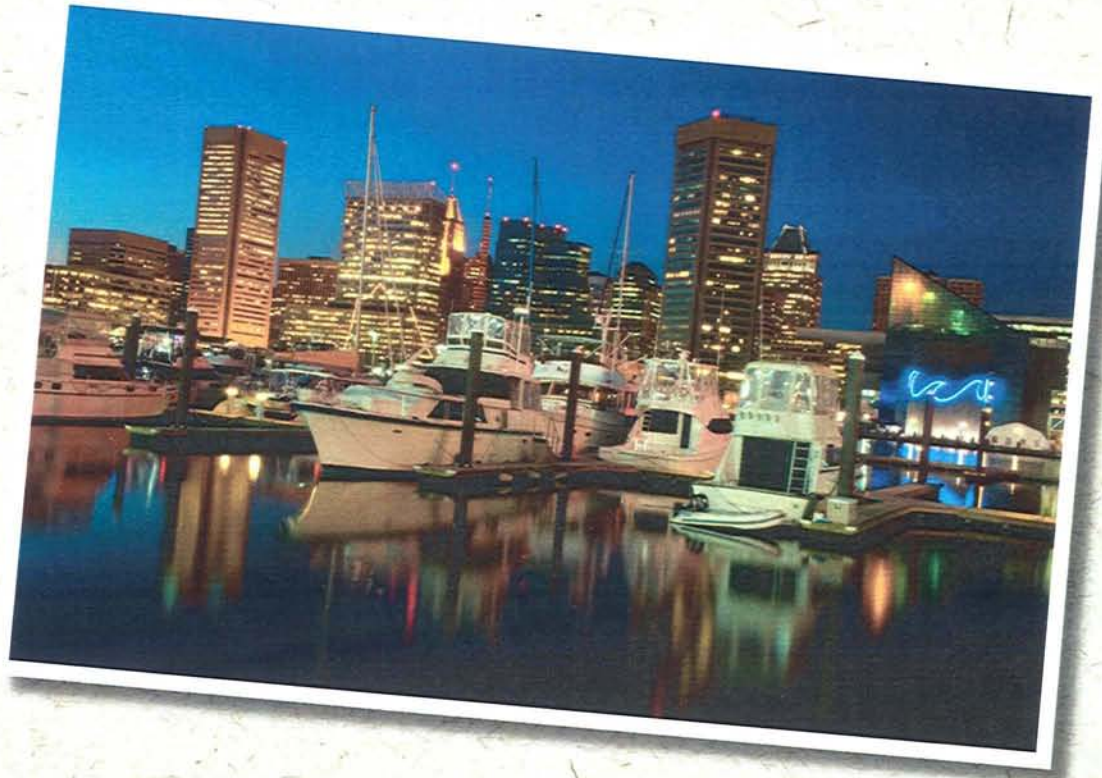
We expect all who interact with us to adhere to these standards of conduct.

Approved by the Board of Trustees February 21, 2002


Employees' Retirement System
City of Baltimore, Maryland
Comprehensive Annual Financial Report
Year Ended June 30, 2008
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Introductory Section



INNER HARBOR MARINA

 **ERS**
EMPLOYEES'
RETIREMENT
SYSTEM
of the CITY OF BALTIMORE

Certificate of Achievement for Excellence in Financial Reporting

Presented to
Employees' Retirement System,
City of Baltimore
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial
Reporting is presented by the Government Finance Officers
Association of the United States and Canada to
government units and public employee retirement
systems whose comprehensive annual financial
reports (CAFRs) achieve the highest
standards in government accounting
and financial reporting.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

CITY OF BALTIMORE

SHEILA DIXON, Mayor



EMPLOYEES' RETIREMENT SYSTEM and ELECTED OFFICIALS' RETIREMENT SYSTEM

ROSELYN H. SPENCER, Executive Director
7 E. Redwood Street
12th and 13th Floors
Baltimore, Maryland 21202

December 30, 2008

The Board of Trustees and
Members of the Employees' Retirement System
Baltimore, Maryland

It is my pleasure to present the Comprehensive Annual Financial Report (CAFR) of the Employees' Retirement System of the City of Baltimore, Maryland (ERS, System, and Plan) a component unit of the City of Baltimore, Maryland (City) for the fiscal year ended June 30, 2008. The report is structured in five sections intended to provide the readers with introductory, financial, investment, actuarial, and membership information. The System's administration is responsible for the accuracy of the data and the completeness of the presentation, including all disclosures. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the ERS operations.

Accounting principles generally accepted in the United States require that management provide a narrative introduction, overview and analysis of the financial statements of the System in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report in the Financial Section.

PROFILE OF THE PLAN

The ERS is a defined benefit plan, established January 1, 1926, by City Ordinance for eligible members who are employed in the general administrative service of the City and for certain non-teacher employees of the Baltimore City Public School System. Excluded from the ERS are uniformed Fire and Police Department employees (who are eligible for membership in the City's Fire and Police Employees' Retirement System) and Elected Officials (who are eligible for membership in the City's Elected Officials' Retirement System). Also excluded are teachers of the Baltimore City Public School System and Enoch Pratt Free Library personnel, who become members of the Maryland State Retirement System.

All System-related administrative and benefit provisions are established by City Ordinance, as contained in Article 22 of the Baltimore City Code, and may be amended only by the Mayor and City Council. The Plan provisions provide a contractual relationship for the membership, whereby benefits may not be diminished or impaired in any way. Benefits provided includes; service and disability retirement and widows and survivors benefits. Non-contributory members qualify for vested benefits after ten years of ERS membership service and fifteen years for contributory members after they leave City employment. As of June 30, 2008, total plan membership was 19,093, a slight increase from 18,893 in 2007. This includes 9,280 active members, 8,638 retired members, and 1,175 terminated employees entitled to but not yet receiving benefits. For additional information about the plan provision, please refer to page 63 in the Actuarial Section.

MAJOR INITIATIVES

Legislation approved by the City Council in May of 2007, provided for a number of benefit improvements including a change in the frequency of the retiree payroll from bi-weekly to monthly payments. This provided a major cost savings of \$150,000 annually. The first monthly benefit checks were disbursed on May 1,

2008, by the ERS custodian, BNY Mellon Bank, who is also serving as the ERS retiree payroll disbursement agent. We also expanded the member services for efficiency and better control by bringing in-house the benefits disbursement support functions. ERS staff is now directly responsible for retiree benefit disbursement services such as; adding and removing members from the payroll, change of address or member status, executing withholding request, stop payments, check replacements and much more. Until May 2008, we relied on other City agencies to provide such services.

Evaluating the System's technology for sufficiency and reliability is critical to the ERS operation and therefore, is an ongoing process. The system's software and hardware capabilities were reviewed to determine load balance, replacement and upgrade requirements. Starting in 2009, we intend to upgrade existing hardware and software. Microsoft Server 2003 will be upgraded to Microsoft Server 2008 to allow for increased productivity, security, and faster processing. Microsoft Exchange 2003 is expected to be upgraded to Microsoft Exchange 2007, to allow for increased security and spyware control. Microsoft Office 2003 will be upgraded to Microsoft Office 2007 to accommodate correspondences exchange between users of Microsoft Office 2007. Workstations and laptops will be upgraded from Windows XP to Vista Business to maintain Microsoft's support. Document imaging and benefits administration software are top priorities for the coming plan year. The implementation of document imaging will curtail the possible risk associated with lost or destruction of member's records in the event of a disaster.

FINANCIAL AND ECONOMIC SUMMARY

Who would have thought that housing and sub-prime lending would start a domino effect that would eventually lead to a global credit crunch, which would consequently plunge the U.S. and other global economies into a recession? This is the reality of the global economy. Evidence of a global recession was apparent by the end of FY2008, when fears of rising inflation and slowing growth sent equity markets reeling. Stocks and bonds declined due to rising oil prices, credit tightening, sub-prime mortgage and financial institutions defaults. The U.S. economy rose slightly in April and May, before falling sharply in June, resulting in declines in all market sectors except fixed income and alternatives. Sharp decline of the U.S. market in June was attributed, amount other things, to oil prices reaching new highs, rising unemployment, and further decline in wages and the housing markets. By the end of FY2008, all the leading indices were down except for the Lehman Brothers Aggregate which posted 7.12% returns and the broadly diversified fund-of-funds index which posted returns of 1.55%. In reality, these unprecedented times, have left many economies, including the U.S., in what maybe a prolonged global recession.

INVESTMENT SUMMARY

As provided by Plan provisions, the Board of Trustees (Board) has full control of all investment of the ERS funds and is responsible for establishing reasonable investment objectives, developing investment policy guidelines, selecting and evaluating performance results to assure adherence to guidelines, and achievement of the objectives.

As of June 30, 2008, total net assets of the System were \$1,356.1billion, a decrease of \$132.5 million from last year's net assets of \$1,488.6 billion, or a 9% drop. The rate of return for the year was (4.83%), stemming from investment losses primarily in equities and from negative net new investments. Investment returns for the year underperformed the System's blended benchmark by (2.02%), and finished in the 49th percentile of the CAI Public Pension Plan Sponsors peers group. The long-term track record remains relatively strong, with three and five year annualized returns of 7.82% and 9.12%, respectively. The asset allocation remained close to target allocations for the most part in all asset classes. As of June 30, the System had 42% of assets in U.S. equities; 14% in non-U.S. equities; 27% in fixed income; 9% in real estate; 3% in private markets, and 5% in absolute returns.

With unabated economy woes and the downward spiral of major economies into a global recession, ERS investment returns for the quarter ending September 30, 2008, dropped by 8.8% and year to date was down 21%. Market value of assets declined \$70.1 million, from \$1,356.1 billion in June, to \$1,286 billion in September. By the end of October, market value of assets was down an additional \$152 million from September. With no clear sign of the market bottoming out and no safe haven available for investments,

the best course of action for the Board, at this time, is to be vigilant, remain steadfast and stick to its long-term strategy of maintaining broad diversification with a long-term focus.

FUNDING RESULTS

A principal measure of the health of a retirement system is the level of funding. The plan funding objective is to meet long-term benefit obligations through contributions and investment income. A better level of funding gives the participants a higher degree of assurance that their pension benefits are secure. As of June 30, 2008, actuarial valuation reflected an increase of the unfunded actuarial liability from \$151.5 million in FY2007 to \$188.5 million in FY2008, a 24.5% increase. The increase is due primarily to investment experience on the actuarial asset value and adverse demographics. ERS is a mature fund, with a growing amount of retiree payouts of more than \$100 million annually. Continuation of such investment losses and benefit payouts will affect the unfunded liability and contributions. Total recommended contribution increased by 13% from \$43.7 million for FY2009, to \$48.7 million in FY2010. Although the funding level for FY2008 declined to 88.7%, from the previous year level of 90.5%, the long-term solvency of the System remains strong, as illustrated on page 32 in the "Schedule of Funding Progress".

ACCOUNTING SYSTEMS AND INTERNAL CONTROL

This report has been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standard Board. The accrual basis of accounting is used to record assets and liabilities, and revenues and expenses. Revenues for the ERS are recorded when earned regardless of the date of collection, and expenses are recorded when liabilities are incurred regardless of when payment is made. The System's administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

INDEPENDENT AUDIT

The Baltimore City Code stipulates that the City's Board of Estimates shall select an independent auditor for the Retirement System, and that the auditor shall report findings annually to the Board of Estimates and to the Board of Trustees. The Board of Estimates elected to have the Department of Audits render an opinion as to the fairness of the System's financial statements. Their audit was conducted in accordance with auditing standards generally accepted in the United States and, for the basic financial statements, the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. On this basis of the examination, the independent auditor has issued an unqualified opinion that the presentation of the financial statements, taken as a whole, conforms to accounting principles generally accepted in the United States. In conducting the audit, the auditor performed tests of the accounting records and such other procedures as were considered necessary in the circumstances to provide a reasonable basis for this opinion on the financial statements. The auditor also assessed the accounting principles used and significant estimates made by management, as well as evaluated the overall financial presentation. The independent auditor's opinion is contained in the Financial Section of this report.

PROFESSIONAL SERVICES

The Board appoints consultants and investment managers, subject to approval by the City's Board of Estimates. These professionals are chosen based on their ability to provide services that are essential to the effective and efficient operation of the System. Trustees are also required to terminate investment managers as necessary for underperformance, or for other material reasons as determined by the Board.

All of the professionals that provide services to the Board are listed in the Introductory and Investment Sections of this Report.

Trustees must exercise their fiduciary obligation in investing the System's assets in accordance with the "prudent person rule." The "prudent person rule" establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. The "prudent person rule" states that fiduciaries shall discharge their duties solely in the interest of the System's participants and beneficiaries, and with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position. The Board recognizes that the objective of a sound and prudent policy is to protect and grow the System's assets through positive investment results to meet the current and long terms needs of the System. Investment portfolio diversification (as indicated on page 44) is therefore, regarded as an important factor to achieving both protection and growth of Plan assets.

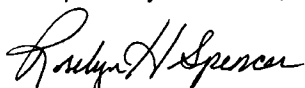
AWARDS AND ACKNOWLEDGMENTS

It is gratifying to see the ERS awarded a Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. This was the 25th consecutive year (fiscal years 1983-2007) that the ERS has received this prestigious award. A Certificate of Achievement is valid for a period of one year only. I believe that this Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements. It will be submitted to the GFOA to determine its eligibility for another certificate.

The compilation of this CAFR reflects the combined effort of ERS' staff, and our advisors. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and determining responsible stewardship for the assets contributed by the members and the City of Baltimore. This report is being forwarded to the Mayor, the Comptroller, the President and members of the City Council, other members of the Board of Estimates, and to all City Agencies, for their information.

On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the staff, our advisors, and to the many people who have worked diligently to assure the continued successful operations of the System.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Roselyn H. Spencer". The signature is fluid and cursive, with the first name "Roselyn" being more prominent.

Roselyn H. Spencer
Executive Director

CITY OF BALTIMORE

SHEILA DIXON, Mayor



EMPLOYEES' RETIREMENT SYSTEM and ELECTED OFFICIALS' RETIREMENT SYSTEM

ROSELYN H. SPENCER, Executive Director

7 E. Redwood Street
12th and 13th Floors
Baltimore, Maryland 21202

December 30, 2008

Dear Members, Retirees and Beneficiaries:

If only we could roll back the hands of time to just over a year ago, when everything seemed to be working well. The economic outlook was promising; our performance was in double digits and our market value was the highest ever. All of this has changed. As I write this letter, the global economic upheaval continues, as we head for what some believe will be a protracted global recession. The major financial market indicators are down and major businesses are failing or turning to the Federal Government for bailout assistance.

With so much uncertainty, I would like to share with you some of the steps we have taken at the Employees' Retirement System (ERS) to weather the storm. Over the years, we have collaborated with the ERS' financial advisors to structure the assets with a disciplined approach focused on our long-term objectives. We accomplished this by diversifying the assets over multiple strategies, so that in turbulent markets like this one, the effects of active management and broad diversification will kick in and provide the necessary anchor. Our funding ratio at 89% is yet another assurance that your retirement benefit is secured and that the ERS is capable of meeting its long-term obligations to retirees. I can assure you that all retirees will receive their full retirement benefits when it is due.

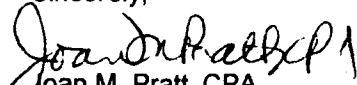
A provision in Article 22 of the Baltimore City Code allows for a guaranteed Cost of Living Adjustment, (COLA) of 1.50% for eligible retirees regardless of the ERS' invest performance. Accordingly, eligible retirees will receive a 1.50% COLA in January 2009, even though investment returns were (4.85%) for FY08.

Finally, I would like to share a few comments about my fellow Board members. To the entire Board, I want to thank you for your perseverance and contribution during a very challenging year. Together we have accomplished a lot in securing the smooth operations of the System. Specifically, I would like to thank former Trustee Kevin Davis, who left the Board after serving nearly two terms, for his many contributions to the Board's success. I want to welcome Carlotta Oliver who replaced Mr. Davis, and to congratulate Trustee Thurman W. Zollicoffer for his reappointment to the Board. Both Thurman and Carlotta are appointed by Mayor Dixon, and bring a wealth of knowledge that will benefit the ERS.

There are few more people to thank on behalf of the entire Board: our former Consultants, Mark Kline, Claudia Bartek, Bo Abesamis, Karen Harris and many other Specialists from Callan Associates, for 11 years of dedicated service and sound professional advice through varying market cycles. We appreciated the relationships developed over the years and their sincerity. I want to also thank the ERS staff, for their diligence and commitment to improving the operation of the ERS. When it comes to serving the ERS members and the Board, they are thoughtful and responsive in ways that most of you do not see.

All of us are dedicated to building a sound and responsive retirement system, of which you our members can be proud. We appreciate the confidence and trust you have placed in us.

Sincerely,


Joan M. Pratt, CPA
Chair of the Board

Employees' Retirement System
City of Baltimore, Maryland
BOARD OF TRUSTEES

Joan M. Pratt, CPA
Chairperson
Ex-officio

Comptroller of the City of Baltimore, Maryland

Deborah F. Moore-Carter
Vice Chair

Term expires December 31, 2011

Mrs. Moore-Carter is the Labor Commissioner for the City of Baltimore.
She was elected by the active membership to serve a four-year term.

Dorothy L. Bryant

Term Expires December 31, 2011

Ms. Bryant is a Phlebotomist with the City of Baltimore Health Department.
She was elected by the active membership to serve a four-year term.

Brenda J. Clayburn

Term expires December 31, 2009

Ms. Clayburn is currently the President of the City of Baltimore Union (CUB).
Her official City job function is Office Supervisor in the Baltimore City Police Department.
She was elected by the active membership to serve a four-year term.

Ernest J. Glinka

Term expires December 31, 2011

Mr. Glinka is a Retired Administrator for the City of Baltimore Retirement Systems.
He was elected by the retired membership to serve a four-year term.

Carlotta Oliver

Term expires December 6, 2011

Ms. Oliver is a Managing Director with Black Knight Asset Management Company in Washington, DC.
She was appointed by the Mayor.

Thurman W. Zollicoffer, Jr., Esq.

Term expires December 31, 2011

Mr. Zollicoffer is an Attorney with Whiteford, Taylor, & Preston, LLP in Baltimore, Maryland.
He was appointed by the Mayor.

Both appointed and elected trustees serve four-year terms. Appointed trustees continue to serve until replaced by the Mayor, or until the expiration of two consecutive full terms. There are no limitations on the number of terms an elected trustee may serve.

Employees' Retirement System
City of Baltimore, Maryland

LEGAL AND SENIOR COUNSEL, ACTUARY, AND INDEPENDENT AUDITOR

LEGAL COUNSEL

City of Baltimore
Law Department
George Nilson, Esq.

SENIOR COUNSEL

Martin L. Levine, Esq.

ACTUARY

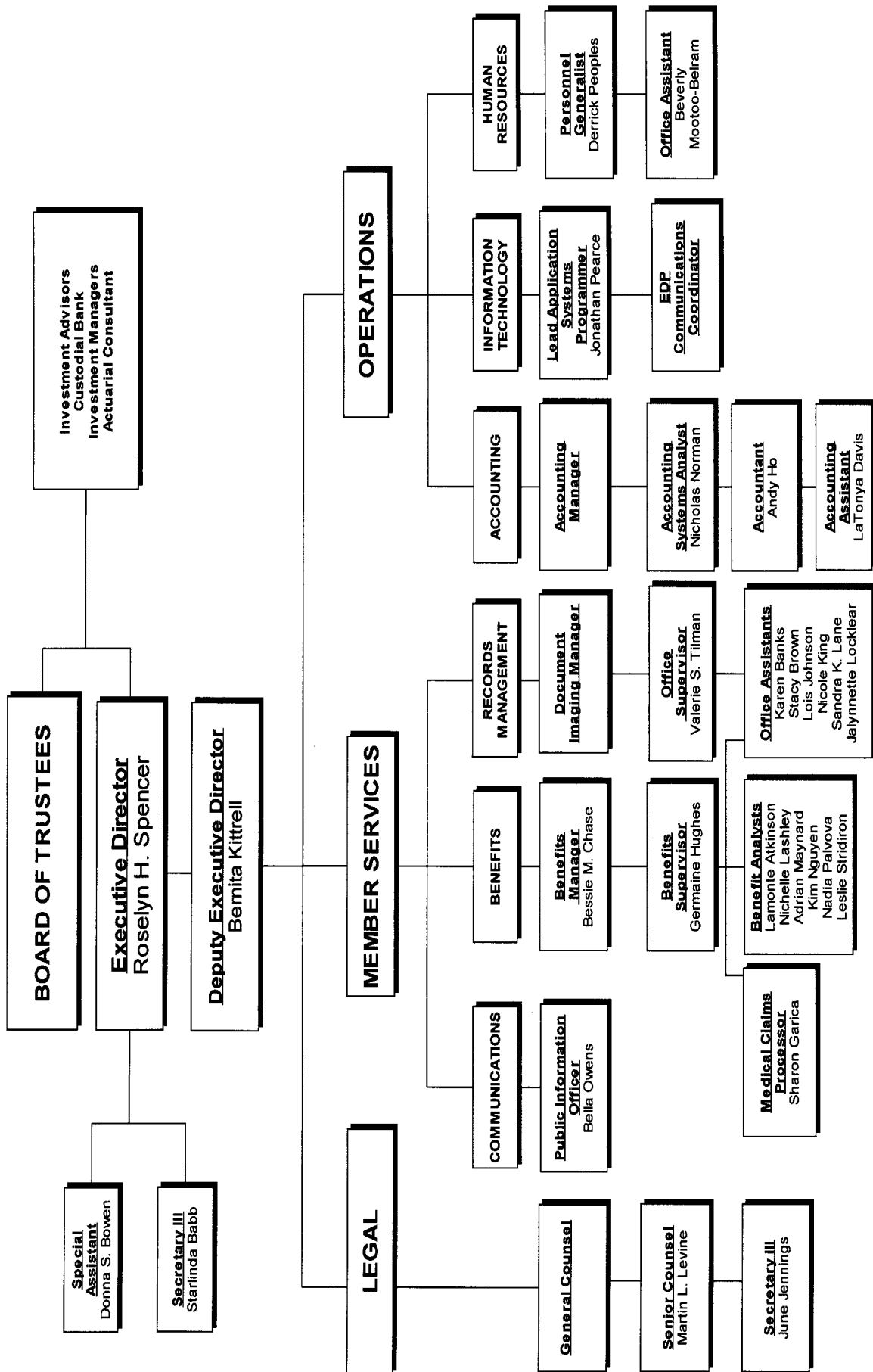
Cherion, Inc.
Kenneth Kent, F.S.A.
McLean, Virginia

INDEPENDENT AUDITOR

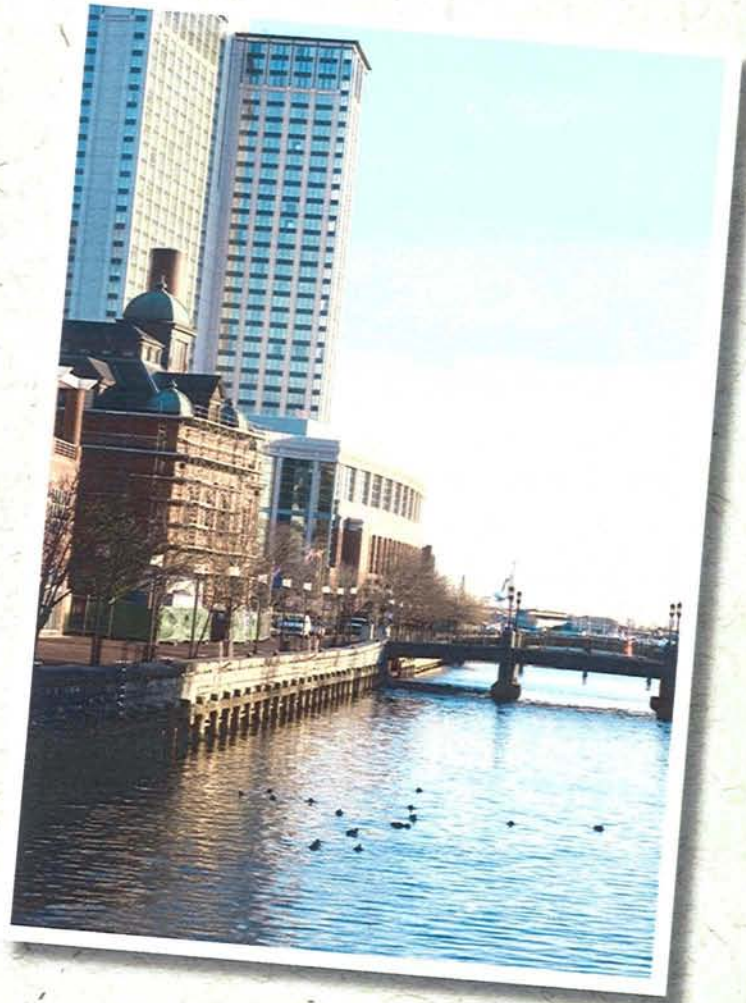
City of Baltimore
Department of Audits
Robert L. McCarty, Jr., CPA

See pages 50 to 52 in the Investment Section for a list of investment professionals.

Employees' Retirement System
City of Baltimore, Maryland
Organization Chart



Financial Section



BALTIMORE CANAL AND BRIDGE AT INNER HARBOR



ERS
EMPLOYEES'
RETIREMENT
SYSTEM
of the CITY OF BALTIMORE

CITY OF BALTIMORE

SHEILA DIXON, Mayor



DEPARTMENT OF AUDITS

ROBERT L. McCARTY, JR., CPA
City Auditor

Room 321, City Hall
Baltimore, Maryland 21202
Telephone: 410-396-4783
Telefax: 410-545-3961

December 30, 2008

Honorable Joan M. Pratt, Comptroller
And Other Members of the
Board of Estimates of the
City of Baltimore
Board of Trustees of the
Employees' Retirement System

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Employees' Retirement System of the City of Baltimore, Maryland, a component unit of the City of Baltimore, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Employees' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

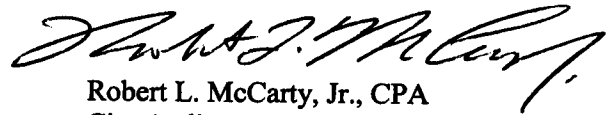
We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Employees' Retirement System's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Employees' Retirement System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Employees' Retirement System as of June 30, 2008, and the respective changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 30, 2008, on our consideration of the Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Employees' Retirement System's basic financial statements. The introductory section, required supplementary information and supporting schedules, investment section, actuarial section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, appearing to read "Robert L. McCarty, Jr.", is positioned above the printed name.

Robert L. McCarty, Jr., CPA
City Auditor

Employees' Retirement System
City of Baltimore, Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of the Employees' Retirement System (ERS) for the fiscal year ended June 30, 2008. ERS is the administrator of a cost-sharing multiple employer defined benefit local government retirement plan (the Plan). Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the Transmittal Letter, which begins on page 7 of this report.

Financial Highlights

- The net assets of the Plan at the close of the fiscal year 2008 are \$1.356 billion. All of the net assets are available to meet the Plan's ongoing obligations to plan participants and their beneficiaries.
- The rate of return for the fiscal year ended June 30, 2008 was (4.83)% compared to the fiscal year ended June 30, 2007 return of 18.33%. The negative rate of return is attributed to rising oil prices, mortgage losses, and softening economy in domestic and international financial markets.
- The Plan's total net assets held in trust for pension benefits decreased by \$132.5 million, compared to last year's increase of \$155.3 million. The decrease of net investment income was primarily due to the performances of the domestic and international equity markets.
- The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2008, the funded ratio for the Plan was 88.7%. In general, this indicates that the Plan has approximately \$0.89 of assets to cover every dollar of benefits due.
- Revenues (Additions to Plan Net Assets) for the year were \$(26.9) million. Revenues include member and employer contributions of \$44.3 million, net investment loss of \$(71.8) million, and net securities lending income of \$0.7 million.
- Expenses (Deductions from Plan Net Assets) increased by \$4.4 million to \$105.6 million from the prior year expenses of \$101.2 million. Contributing largely to the increase in expenses were retirement allowances and post-retirement benefits.

Overview of Financial Statements

The following discussion and analysis are intended to serve as an introduction to the Plan's financial statements and the Financial Section of this report.

The **Statement of Plan Net Assets** provides a snapshot of the financial position of the Plan at June 30, 2008, the end of the Plan's financial year. It indicates the total assets and total liabilities at June 30, 2008 and the net assets available for future payment of retirement benefits and operating expenditures.

The **Statement of Changes in Plan Net Assets**, on the other hand, summarizes the Plan's financial activities that occurred during the Plan's financial year from July 1, 2007 through June 30, 2008.

The **Notes to Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

The statements and the notes are in conformity with the accounting principles generally accepted in the United States. These principles require certain financial statement presentations and disclosures including the use of the accrual basis of accounting to record assets and liabilities, and revenues and expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Statement of Plan Net Assets presents the Plan's assets and liabilities, as well as, the net assets available for future retirement benefits and operating expenses at June 30, 2008. The assets comprise receivables, mainly from investment activity, investments at fair market value and securities lending collateral. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Purchases and sales of investments are recorded on a trade date basis. The fair value of real estate holdings is estimated based primarily on appraisals by third-party appraisers. The fair value of private equity investments is estimated based primarily on audited financial statements provided to the individual fund managers. The payables comprise securities lending collateral, certain investment activity, retirement benefits and administrative expenses.

The Statement of Changes in Plan Net Assets presents information showing how the Plan's net assets changed during the year. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when a formal commitment has been made by the City to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. All investment gains and losses are shown at trade date. Both realized and unrealized gains and losses are shown on investments.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets can be found on pages 23 and 24 of this report.

The **Required Supplementary Information** that follows immediately after the notes to the basic financial statements provide two schedules showing ten year historical trend information concerning the funded status of the ERS and contributions made to the plan by the employer. See the Required Supplementary Information beginning on page 32 of this report.

The remaining supplemental schedules provide additional detailed information concerning operating expenses, investment expenses and payments to consultants. All of this information is considered useful in understanding and evaluating the financial activities of the Plan.

Financial Analysis

Net assets may serve over time as a useful indicator of the Plan's financial position. At June 30, 2008, assets exceeded liabilities by \$1.356 billion. All of the net assets are available to meet the Plan's ongoing obligation to Plan participants and their beneficiaries. As of June 30, 2008, total net assets decreased by 8.9% over the prior year, primarily due to performance of the domestic and international equity markets. Management believes that the Plan remains in a strong financial position to meet its obligations to the members, retirees and their beneficiaries.

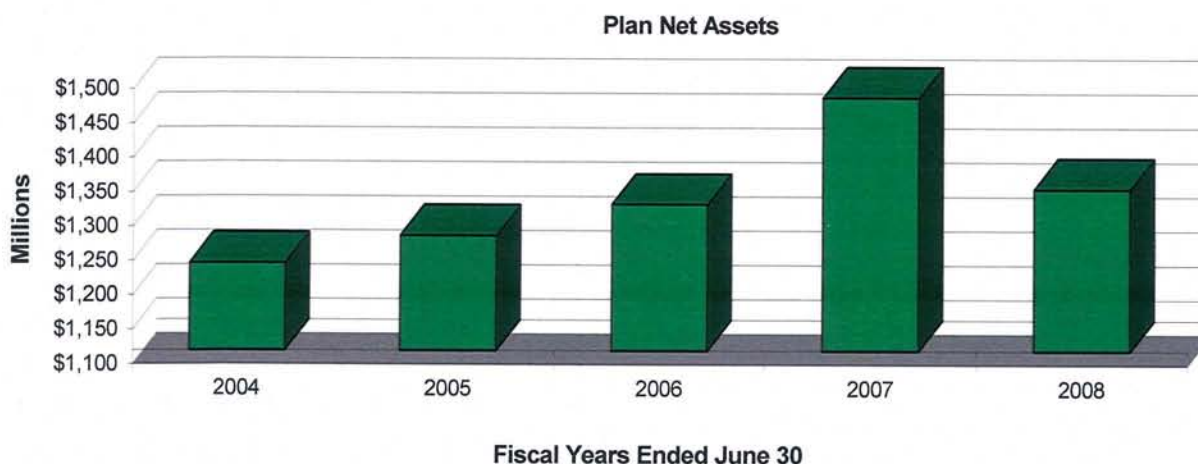
PLAN NET ASSETS				
	Fiscal Year 2008	Fiscal Year 2007	Increase (Decrease) Amount	Percentage Change
Other assets	\$ 75,530,400	\$ 91,881,460	\$ (16,351,060)	(17.8) %
Investments at fair value	1,486,016,603	1,723,322,485	(237,305,882)	(13.8)
Total assets	1,561,547,003	1,815,203,945	(253,656,942)	(14.0)
Total liabilities	205,464,842	326,628,977	(121,164,135)	(37.1)
Total net assets	\$ 1,356,082,161	\$ 1,488,574,968	\$ (132,492,807)	(8.9) %

Investment Assets

The Plan is a long-term investor and manages the plan assets with long-term objectives in mind. A primary element of the ERS' investment philosophy is that the Plan's assets are diversified to achieve its goals. After conducting an asset-liability study with the Plan's investment consultant, the Board of Trustees established an asset allocation plan taking into account the risk associated with each asset class as well as the financial objectives of the Plan. Investments are stated at fair value rather than at cost and include the recognition of unrealized gains and losses in the current period. The rate of return on investments for the year ended June 30, 2008 was (4.83)%, a (23.16)% decrease compared to fiscal year 2007 rate of return, 18.33%. The decrease of the rate of return is attributed to rising oil prices, mortgage losses, and softening economy in domestic and international financial markets. Even though the Plan had positive returns in the energy sector, the Plan was not able to maintain a positive position because of negative returns of the financial sector in the domestic equity market. Subsequent events after the end of the 2008 fiscal year have decreased the market value of the investments in the amount of \$300,130,447 or 21%. The annualized rate of return for the last three and five year periods ended June 30, 2008, were 7.82% and 9.12%, respectively. The Plan's long-term actuarial investment return assumption is 8.0%.

The Plan invests in domestic equities, international equities, domestic fixed income, real estate, tactical asset allocation strategy (which are investments in domestic equities and domestic fixed income), and alternative investments. The Plan also participates in a securities lending program, which is managed by the Plan's custodian bank. External investment management firms selected by the Plan's Board of Trustees manage all of the assets. BNY Mellon Bank, the Plan's custodian bank, holds all marketable securities.

The Investment Section beginning on page 40 gives detailed information on the Plan's investment policies. See page 46 of this report for charts showing the asset allocation targets established by the Board of Trustees and the actual asset allocation of System assets at June 30, 2008.



Liabilities

The current liabilities are payables incurred by the transaction activity of the investment assets, the retirement benefit expenses, and operating expenses of the Plan's office.

Employees' Retirement System
City of Baltimore, Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGES IN PLAN NET ASSETS			
	Fiscal Year 2008	Fiscal Year 2007	Increase (Decrease) Amount
Additions			
Employer contribution	\$ 43,918,411	\$ 36,841,351	\$ 7,077,060
Members contributions	345,637	308,703	36,934
Net investment income	(71,835,001)	219,047,423	(290,882,424)
Net securities lending income	701,208	328,259	372,949
Total additions	<u>(26,869,745)</u>	<u>256,525,736</u>	<u>(283,395,481)</u>
Deductions			
Retirement allowances	101,461,516	97,104,170	4,357,346
Administrative expenses	2,913,458	2,615,247	298,211
Death benefits	1,061,050	1,294,666	(233,616)
Lump sum cash payments	177,877	155,325	22,552
Refund of members' contribution	9,161	5,008	4,153
Total deductions	<u>105,623,062</u>	<u>101,174,416</u>	<u>4,448,646</u>
Net increase (decrease)	<u>\$ (132,492,807)</u>	<u>\$ 155,351,320</u>	<u>\$ (287,844,127)</u>

Contributions and Investment Income

The employer's contribution increased by 19.2% over last year's contributions. The employers contributions are actuarial based. The salary increases of the current active membership and the actuarial changes to the rates to calculate the normal cost of the benefits for the members required the employer's contribution to increase. The member contributions increased by \$37 thousand this current fiscal year because of raises paid to active membership and the repurchase of membership service. The repurchase service option offered to active members has increased this year due to a decline from 10.46% in 2007 to 8.24% which is the cost to purchase service time during fiscal year 2008. This amount is multiplied times the active members' current salary. The net investment income decreased by 133.3% this year due to negative performance of the domestic and international equity markets. The net investment income also includes investment expenses as a deduction. Investment expenses were \$6.3 million and \$5.6 million for fiscal years 2008 and 2007, respectively. The slight increase is contributed to the Board termination of non-performing managers and hiring new managers with investments that yield higher rate of returns that meet the goals and objectives of the Plan.

Retirement Benefits and Administrative Expenses

The Plan was created to provide lifetime service retirement benefits, survivor benefits and disability benefits to eligible members and their beneficiaries. The cost of such programs includes recurring benefit payments, lump sum death benefits, payments to terminated members, and the cost of administering the Plan.

The primary source of expense during fiscal year 2008 was for the payment of continuing retirement benefits totaling \$101.5 million, which compares to \$97.1 million for fiscal year 2007. Retirement allowances increased \$4.4 million due to an increase in the number of benefit recipients, the annual cost of living adjustment of 2.52%.

Employees' Retirement System
City of Baltimore, Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances and to account for the money it receives to the Board of Trustees, the Mayor and City Council, the Plan's membership and the City's taxpayers. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**Executive Director
Employees' Retirement System
7 E. Redwood Street, 12th Floor
Baltimore, Maryland 21202**

Employees' Retirement System
City of Baltimore, Maryland
Statement of Plan Net Assets
June 30, 2008

Assets

Cash and cash equivalents			\$ 42,396,549
Receivables			
Investments sold	\$ 26,309,928		
Accrued income	5,346,910		
Other receivables	<u>152,633</u>		
Total receivables			31,809,471
Capital assets			
Leasehold improvements	1,355,429		
Depreciation - leasehold improvements	<u>(268,183)</u>		
Net leasehold improvement total		1,087,246	
Office furniture	315,156		
Depreciation - office furniture	<u>(132,305)</u>		
Net office furniture total		182,851	
Office equipment	82,673		
Depreciation - office equipment	<u>(28,390)</u>		
Net office equipment total		<u>54,283</u>	
Total capital assets			1,324,380
Investments, at fair value			
Bonds	428,908,859		
Stock	603,503,352		
International stock	178,408,560		
Real estate	123,381,407		
Hedge funds	<u>64,216,773</u>		
Total investments			1,398,418,951
Securities lending collateral			<u>87,597,652</u>
Total assets			<u>1,561,547,003</u>

Liabilities

Securities lending collateral	87,597,652		
Investments purchased	114,960,410		
Investment management fees payable	993,026		
Administrative expenses payable	1,296,257		
Other accounts payable	<u>617,497</u>		
Total liabilities			<u>205,464,842</u>
Net assets held in trust for pension benefits			<u>\$ 1,356,082,161</u>

The notes to the basic financial statements are an integral part of this statement.

Employees' Retirement System
City of Baltimore, Maryland
Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2008

Additions

Contributions

Employer	\$ 43,918,411	
Plan members	<u>345,637</u>	
Total contributions		\$ 44,264,048

Investment Income

Net depreciation in fair value of investments	(111,674,879)	
Interest, dividends, and real estate income	46,115,481	
Less: Investment expenses	<u>(6,275,603)</u>	
Net investment income		(71,835,001)

Securities lending income	1,001,675	
Securities lending fees	<u>(300,467)</u>	<u>701,208</u>

Total additions		<u>(26,869,745)</u>
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Deductions

Retirement allowances	101,461,516
Administrative expenses	2,913,458
Death benefits	1,061,050
Lump cash payments	177,877
Refund of members' contributions	<u>9,161</u>

Total deductions	<u>105,623,062</u>
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Net decrease	(132,492,807)
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Net assets held in trust for pension benefits

July 1, 2007	<u>1,488,574,968</u>
June 30, 2008	<u>\$ 1,356,082,161</u>

The notes to the basic financial statements are an integral part of this statement.

Employees' Retirement System
City of Baltimore, Maryland
NOTES TO BASIC FINANCIAL STATEMENTS

1. Plan Description:

The Employees' Retirement System of the City of Baltimore (ERS) is the administrator of a cost-sharing multiple employer defined benefit local government retirement plan (the Plan). Established January 1, 1926, the Plan covers City employees and the Baltimore City Public School System employees with the exception of those required to join the Maryland State Retirement System, or the two other Baltimore City retirement systems, the Fire and Police Employees' Retirement System and the Elected Officials' Retirement System. Based on criteria established by the Governmental Accounting Standards Board, the ERS is a component unit of the City of Baltimore and is included in the City's financial report as a public employees' retirement system (PERS).

At June 30, 2008, the ERS membership consisted of:

Retirees and beneficiaries currently receiving benefits	8,638
Terminated plan members entitled to but not yet receiving benefits	1,175
Active plan members	<u>9,280</u>
Total membership	<u>19,093</u>

The Plan provides service retirement benefits as well as death and disability benefits in accordance with the Plan Provisions, Article 22 of the Baltimore City Code. The Mayor and City Council may only amend the Plan Provisions. The reduction of benefits is precluded by the City Code.

The ERS is composed mainly of non-contributory members, 99.0% of the membership. The non-contributory class consists of all employees hired on or after July 1, 1979 who automatically become members on the first anniversary of employment, and all members hired prior to July 1, 1979 who elected to transfer from the contributory class.

A very small portion, 1.0% of the active membership, remain as contributory class members. The contributory class consists of all members hired prior to July 1, 1979 who did not elect to transfer to the non-contributory class. Membership was mandatory on the member's second anniversary of employment. However, the member could voluntarily enroll within the first two years of employment.

Post-retirement benefit increases are granted each year to eligible retirees and beneficiaries. A 1.0% minimum benefit increase is provided by the Plan Provisions. However, additional percentage increases are granted if the Plan is determined at June 30 to have excess investment earnings. Total post-retirement benefit increases are not to exceed 5% in any given year.

2. Summary of Significant Accounting Policies:

Basis of Presentation:

The accounting and financial reporting policies of the Plan included in this report conform with accounting principles generally accepted in the United States and reporting standards as promulgated by the Governmental Accounting Standards Board, which designates accounting principles and financial reporting standards applicable to PERS. This report includes solely the accounts of the Plan, a component unit of the City of Baltimore. There are no component units of the Plan based on the nature of operational or financial relationships.

Basis of Accounting:

These financial statements have been prepared on the accrual basis of accounting, whereby revenues are recorded when they are earned, expenses are recorded when liabilities are incurred, and investment purchases and sales are recorded as of their trade date. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the

Employees' Retirement System
City of Baltimore, Maryland
NOTES TO BASIC FINANCIAL STATEMENTS

employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments:

Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. The real estate holdings are based on the most recent appraisal (either internal to the manager or third party) as then presently available. Investments that do not have an established market are reported at estimated fair value.

3. Contributions and Reserves:

Contributory members are required by the Plan provisions to contribute 4% of regular compensation through payroll deduction. The employer contributions are determined through an actuarial valuation. The valuation method is stipulated in the Plan provisions. Administrative expenses are paid from investment earnings.

The Plan provisions, Article 22 of the Baltimore City Code, establish the following reserves:

Annuity savings reserve - Accumulated in this reserve are members' contributions inclusive of interest credits, less amounts distributed upon termination of employment or death, or transferred to another reserve for retirement.

Annuity reserve - Upon retirement, the accumulated contributions of members are transferred to this reserve. From this reserve, the members' accumulated contributions are paid as a life annuity.

Pension accumulation reserve - Employer contributions are credited and accumulated with earnings in this reserve. Certain death benefits are paid from here. In addition, when a member retires, an amount equal to the member's pension reserve is transferred to the pension reserve.

Pension reserve - From this reserve is paid the pension portion of the member's retirement allowance. The pension represents benefits for life derived from the contributions made by the employer and accumulated investment earnings.

At June 30, 2008, the balances in the legally required reserves are as follows:

<u>Reserves</u>	<u>Balance</u>
Annuity savings reserve	\$ 4,775,849
Annuity reserve	23,754,930
Pension accumulation reserve	486,168,174
Pension reserve	<u>841,383,208</u>
Total reserves	<u>\$1,356,082,161</u>

At the date of the last actuarial valuation report, June 30, 2008 the above reserves were underfunded and the pension accumulation reserve had an actuarially determined accrued liability in excess of assets in the amount of \$188,544,605.

4. Securities Lending:

The Board of Trustees entered into a Securities Lending Authorization Agreement with Mellon Bank (the Custodian). All individual securities which are readily marketable and which are not restricted due to an outstanding short option are eligible for loan at the discretion of the Custodian. The investment manager may loan securities held in custody of commingled accounts if authorized in the manager's contract with the ERS.

Employees' Retirement System
City of Baltimore, Maryland
NOTES TO BASIC FINANCIAL STATEMENTS

Collateral received in exchange for securities loaned is collected in an escrow account for the Plan's benefit for the duration of the loan. At no time will the Plan lose custody of the loaned securities. Collateral in exchange for the principal loaned may be in the form of cash, or securities issued or guaranteed by the U.S. government, its agencies or instrumentalities. Irrevocable Letters of Credit from banks approved by the Custodian may not be used as collateral. The minimum levels of collateral will be set at 102% of the market value of domestic securities loaned, including all accrued income, and 105% of the market value of international securities loaned, including all accrued income. If the market value of the collateral falls below 100% of the loaned securities, additional collateral will be collected to maintain the appropriate minimum level. All collateral amounts are marked to market daily. The Plan does not have the right to sell or pledge securities received as collateral without borrower default.

At June 30, 2008, the Plan had no credit risk exposure to borrowers because the amounts the Plan owes borrowers exceeded the amounts the borrowers owed the Plan. The market value of securities on loan at June 30, 2008 was \$84,659,910 and the market value of the collateral received for those securities on loan was \$87,597,652. The Plan did not impose any restrictions during the fiscal year on the amount of loans the Custodian made on its behalf. The terms of the Securities Lending Authorization Agreement require that the Custodian indemnify the Plan against: (1) the failure to demand adequate and appropriate collateral from a borrower; (2) the failure to comply with the investment guidelines in connection with the investment and reinvestment of cash collateral; (3) the failure to obtain and perfect a security interest or rights equivalent thereto in and to the collateral; and (4) the failure to make a reasonable determination of the creditworthiness of any borrower. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrower or the Custodian.

Substantially, all securities loans can be terminated on demand either by the Custodian or by the borrower, although generally the average term of these loans is one week. Cash collateral is invested in the Custodian's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20% of the invested cash collateral is to be available each business day and the dollar weighted average maturity of holdings should not exceed 90 days.

5. Cash and Investments:

The Plan's cash deposits are entirely covered by federal depository insurance at all times.

The Board of Trustees (the Board) is authorized by the Baltimore City Code to make investments in accordance with the guidelines and limitations set forth in the Code. The Board accomplishes the daily management of the Plan's investments through an external investment advisor who acts as a fiduciary for the Plan and through external investment managers. The Board invests the assets of the Plan using the "prudent person standard" which allows the Board to consider the probable safety of investments, avoid speculative investments, and invest as people of prudence, discretion, and intelligence would in a similar situation. The Board has adopted an investment policy and guidelines to formally document its investment objectives and responsibilities.

Investments of the Plan are held under custodial agreement with BNY Mellon Financial Corporation.

The Plan's investments as of June 30, 2008 are listed below:

<u>Investment type</u>	<u>Fair Value</u>
Debt securities:	
U.S. Treasury notes and bonds	\$ 49,134,431
Money market mutual funds	42,396,549
Corporate bonds	259,364,978
U.S. Government agency bonds	<u>120,409,450</u>
Total debt securities	<u>471,305,408</u>

Employees' Retirement System
City of Baltimore, Maryland
NOTES TO BASIC FINANCIAL STATEMENTS

Other:	
Stock	603,503,352
International stock	178,408,560
Real estate	123,381,407
Hedge funds	<u>64,216,773</u>
Total other	<u>969,510,092</u>
 Total investments	 1,440,815,500
Less:	
Cash and cash equivalents	<u>42,396,549</u>
 Total net investments	 <u>\$1,398,418,951</u>

Foreign Currency Exposure Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. At June 30, 2008 the Employees' Retirement System did not hold any hedging foreign investment positions. ERS does not have a formal policy to limit foreign currency risk. ERS foreign currency risk at June 30, 2008 is presented in the following table:

<u>Currency</u>	<u>Total</u>
Euro Currency Unit	\$ 55,267,932
Japanese yen	25,854,209
British pound sterling	23,169,074
Swiss franc	6,980,700
Hong Kong dollar	5,987,974
Canadian dollar	5,428,485
Norwegian krone	4,228,710
Danish krone	4,059,862
Australian dollar	2,241,980
Swedish krona	2,199,654
Singapore dollar	1,741,022
Russian rubel	699,186
New Turkish lira	459,720
Brazil real	444,606
Mexican new peso	<u>(113,654)</u>
Total securities subject to foreign currency	138,649,460
 United States dollars (securities held by international investment managers)	 <u>44,506,463</u>
 Total international investment securities	 <u>\$ 183,155,922</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of investments. The Plan has selected the duration method to disclose the debt securities exposure to changes in interest rates. The Plan does not have a formal policy to limit interest rate risk.

Employees' Retirement System
City of Baltimore, Maryland
NOTES TO BASIC FINANCIAL STATEMENTS

<u>Investment Type</u>	<u>Fair Value</u>	<u>Duration (In Years)</u>
Debt securities:		
U.S. Treasury notes and bonds	\$ 49,134,431	6.01
Money market mutual funds	42,396,549	.09
Corporate bonds	259,364,978	4.50
U.S. Government agency bonds	<u>120,409,450</u>	4.55
Total Debt securities	<u>\$ 471,305,408</u>	

Credit Risk by Quality

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board has not adopted a formal policy to limit credit risk. ERS-rated debt investments as of June 30, 2008 were rated by a nationally recognized statistical rating agency and are presented below using the Standard and Poor's rating scale:

<u>Investment Type</u>	<u>Investments at Fair Value Credit Risk by Quality Rating</u>				
	<u>AAA-A</u>	<u>BBB-B</u>	<u>CCC-C</u>	<u>Not Rated</u>	<u>Total</u>
Debt securities:					
U.S. Treasury notes and bonds	\$ 49,134,431				\$ 49,134,431
Money market mutual funds				\$ 42,396,549	42,396,549
Corporate bonds	159,027,763	\$49,908,275	\$1,243,432	49,185,508	259,364,978
U.S. Government agency bonds	<u>120,409,450</u>				<u>120,409,450</u>
Total Debt Securities	<u>\$328,571,644</u>	<u>\$49,908,275</u>	<u>\$1,243,432</u>	<u>\$ 91,582,057</u>	<u>\$471,305,408</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2008, the ERS has no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

6. Capital Assets

The capital assets purchased during the fiscal year ending June 30, 2008 consist of leasehold improvements, office equipment and office furniture. All capital assets are recorded at cost less accumulated depreciation.

<u>Capital Assets</u>	<u>Accumulated Cost</u>	<u>Net Depreciation</u>	<u>Capital Assets</u>
Leasehold improvements	\$1,355,429	\$(268,183)	\$1,087,246
Office furniture	315,156	(132,305)	182,851
Office equipment	<u>82,673</u>	<u>(28,390)</u>	<u>54,283</u>
Total Capital Assets	<u>\$1,753,257</u>	<u>\$(428,878)</u>	<u>\$1,324,380</u>

7. Funding Policy

Funding of the System is accomplished through member and employer contributions, and the investment earnings. The System uses the projected unit credit funding method. The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. A ten year schedule of the funding progress is on page 32 of this report.

Employees' Retirement System
City of Baltimore, Maryland
NOTES TO BASIC FINANCIAL STATEMENTS

Funding Progress Schedule

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Cost (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/ c)
06/30/08	\$1,475,533,717	\$1,664,078,322	\$188,544,605	88.7%	\$367,517,243	51.3%

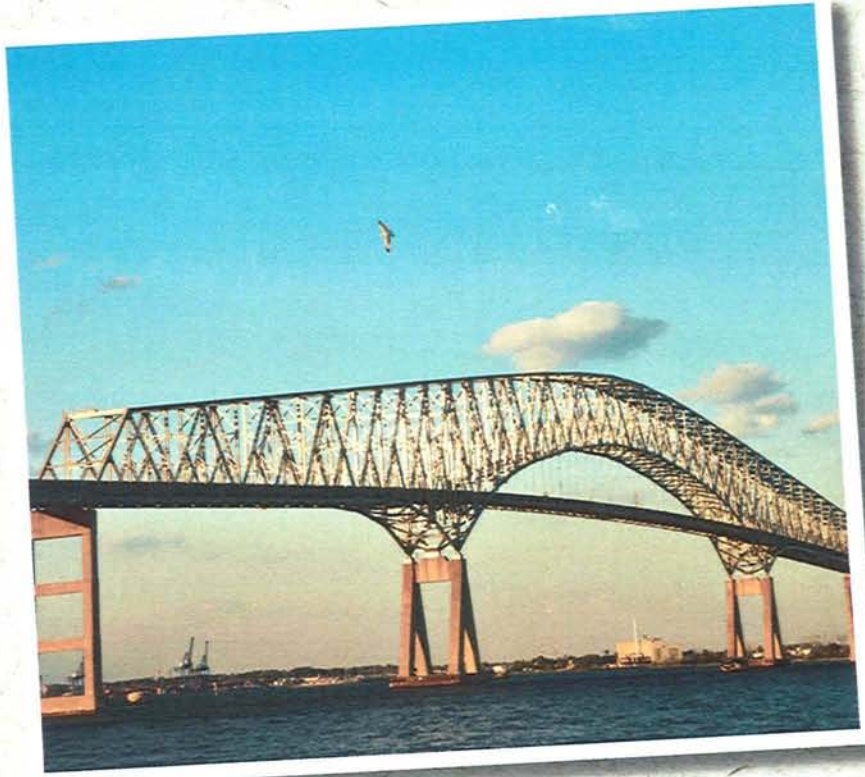
The information presented below is in the required supplementary schedules of this report on page 34 and is determined as part of the actuarial valuation dated June 30, 2008.

Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar, open
Amortization period:	20-year period re-established each year.
Asset valuation method:	Market value adjusted for investment surpluses and deficits over a five year period. The actuarial value of assets is the market value less cumulative unallocated earnings. Any contribution receivable of the upcoming fiscal year (as determined in the prior year's valuation) is added to the results.
Actuarial assumptions:	
Investment rate of return:	
Pre-retirement	8.0%
Post-retirement	6.8%
Projected salary increases:	Inflation rate approximately 3%.
Cost-of-living adjustments:	1.5%, with variable based on excess investment returns.

8. Subsequent Events

There has been a significant decline in the fair market value of the Plan's investments due to the economic downturn that occurred since the closing of the System's balance sheet as of the year ended June 30, 2008. The fair market value of investments has decreased by \$300,130,447 since June 30, 2008, which represents a decline of 21%.

Required Supplementary Information and Supporting Schedules



FRANCIS SCOTT KEY BRIDGE

Employees' Retirement System
City of Baltimore, Maryland
Required Supplementary Information
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Cost (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/c)
6-30-99	\$ 1,247,951,875	\$ 1,193,031,357	\$ (54,920,518)	104.6%	\$ 305,212,012	(18.0)%
6-30-00	1,309,547,725	1,217,621,669	(91,926,056)	107.5	308,895,853	(29.8)
6-30-01	1,374,100,736	1,283,030,273	(91,070,463)	107.1	309,602,035	(29.4)
6-30-02	1,365,617,359	1,271,606,212	(94,011,147)	107.4	305,521,211	(30.8)
6-30-03	1,408,545,332	1,374,747,918	(33,797,414)	102.5	316,311,022	(10.7)
6-30-04	1,397,581,780	1,429,231,020	31,649,240	97.8	322,914,690	9.8
6-30-05	1,403,206,754	1,466,857,297	63,650,543	95.7	320,985,908	19.8
6-30-06	1,411,165,977	1,530,526,367	119,360,390	92.2	331,888,366	36.0
6-30-07	1,447,196,612	1,598,682,178	151,485,566	90.5	346,391,734	43.7
6-30-08	1,475,533,717	1,664,078,322	188,544,605	88.7	367,517,243	51.3

See notes to required supplementary information.

Employees' Retirement System
City of Baltimore, Maryland
Required Supplementary Information
SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Fiscal Year Ended June 30</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
1999	\$19,709,553	100%
2000	18,869,253	100
2001	16,592,465	100
2002	17,714,152	100
2003	17,736,030	100
2004	17,352,473	100
2005	23,624,914	100
2006	31,003,063	100
2007	36,841,351	100
2008	43,918,411	100

See notes to required supplementary information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. The information presented in the required supplementary schedules was determined as part of the actuarial valuation dated June 30, 2008. Additional information follows from the latest actuarial valuation report.

Actuarial cost method:	Projected unit credit cost
Amortization method:	Level dollar, open
Amortization period:	20-year period re-established each year; only one amortization base
Asset valuation method:	Market value adjusted for investment surpluses and deficits over a five year period. The actuarial value of assets is the market value less cumulative unallocated earnings. Any contribution receivable of the upcoming fiscal year (as determined in the prior year's valuation) is added to the results.
Actuarial assumptions:	
Investment rate of return:	
Pre-retirement	8.00%
Post-retirement	6.80%
Projected salary increases	Inflation rate approximately 3%.
Cost-of-living adjustments	1.5% annual increase with a variable base on excess investment returns

2. Changes in actuarial assumptions, which included a decrease in the actuarial assumed rate of return on assets for pre-retirement to 8.25% and for post-retirement to 6.8%, down from 8.50% and 7.00%, respectively, increased the June 30, 1995 actuarial accrued liability by \$8.3 million. Also, a lower than assumed increase in covered payroll for active employees decreased the June 30, 1995 actuarial accrued liability by \$6.4 million.
3. New plan benefit provisions, which included establishing a new method for calculating additional service credit for certain employees who leave employment during certain times, shortening the eligibility period for new retirees to begin receiving post retirement benefit increases, and a change in post retirement benefits, increased the June 30, 1996, unfunded actuarial liability by \$60.0 million. A higher than assumed increase in disability retirements and job abolishment retirements increased the June 30, 1996 unfunded actuarial liability by \$12.0 million. Also, a decrease in the withdrawal assumption increased the June 30, 1996 unfunded actuarial liability by an additional \$14 million. The June 30, 1996 unfunded actuarial liability was reduced by \$58.0 million, due to the application of actuarial interest surplus.
4. Changes in actuarial assumptions, which included a decrease in the actuarial assumed rate of return on assets for pre-retirement to 8.00%, down from 8.25%, increased the June 30, 1999 actuarial accrued liability by \$2.2 million. Also, a lower than assumed increase in covered payroll for active employees decreased the June 30, 1999 actuarial accrued liability by \$5.2 million.
5. Effective April 1, 2001, amendments were made to the Plan provisions. These amendments included: increasing the formulas for service and non-line-of-duty disability retirement for all classes of membership; establishing a new non-line-of-duty death benefit for members who have 20 or more years of service credit; lowering the eligibility requirements for line-of-duty disability; reducing the Workers Compensation offset provisions for disability and death benefits; and increasing or establishing survivorship benefits for eligible spouses and eligible minor children of members who selected the maximum benefit and retired prior to June 29, 1989.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The City Administration elected to pay the \$63.2 million cost of these improvements for the first 20 years by utilizing a portion of the System's net unallocated excess earnings as of June 30, 2000, which totaled \$86.4 million at that date.

6. Changes in actuarial assumptions include a change to generational tables for pre-retirement non-line-of-duty, service retirement and beneficiaries of service retirements. Withdrawal age-based rates decreased for the first year and increased in the second and third years. Disability rates reduced for non-line-of-duty for ages between 55 and 59, and Class C line-of-duty was reduced by one-third. Disability retirement rates increased for retirements after age 60 with less than 30 years of service. The taxable wage base was decreased to 4.0% and the inflation rate to 3.0%. All of the assumption changes will result in a \$4.5 million increase in annual City cost. Changes are effective as of June 30, 2002.
7. Changes in the actuarial assumptions included a change to generational tables for pre-retirement non-line-of-duty, service retirement and beneficiaries of service retirements. Disability rates increased for non-line-of-duty for all ages ranging in a rate increase between .05% and .08%. Line of duty disability rates for A, B and C members' remain unchanged. Withdrawal age-based salary rates were lowered to 4.25% with an average salary rate change from 5.6% to 5.2%. Service retirement rates increased for those with less than 30 years of service by .02%. Members with 30 years of service or more retirement rates decreased by at least .01% depending on the age of the retiree.

Effective July 1, 2006, amendments were made to the Plan provisions. These amendments included: combining the assets of the Plan and increasing the cost of living adjustment. The investments in the paid up benefit and the contingency reserve funds were passively invested and not used in the actuary's valuation of the Plan's assets. The new Plan provision no longer separates the paid up benefit fund and the contingency reserve fund. The combining of assets allow the Plan to have all assets actively invested. The cost of living adjustment was changed to a guaranteed adjustment of 1.5% with an additional variable increase based on excess investment returns.

All of the assumption and Plan provision changes resulted in a .056%, or \$245,384, decrease in annual City cost for the fiscal year as well as an increase of the unfunded liability from \$119.4 million to \$151.5 million. The changes to the Plan provision paid an additional ad hoc cost of living adjustment of \$13.1 million or a one time increase of 1.45% to all retirees and beneficiaries with a retirement date on or before June 30, 2006 which was paid during fiscal year ending June 30, 2007. Changes are effective as of June 30, 2007.

Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ADMINISTRATIVE EXPENSES
Year Ended June 30, 2008

Salaries and wages:		
Permanent full-time salaries	\$ 1,274,773	
Overtime compensation	25,357	
Total salaries and wages		\$ 1,300,130
Other personnel costs:		
Medical insurance and health care	218,034	
Social security	226,594	
Other	9,198	
Total other personnel costs		453,826
Contractual services:		
Retirement payroll processing	298,904	
Lease purchase agreements	221,933	
Actuarial services	100,237	
Data processing services	83,131	
Computer network services	55,159	
Audit fees	52,058	
Trustee education	44,100	
Postage	33,514	
Telephone systems	23,331	
Election services	19,339	
Advertising	18,178	
Professional services	9,359	
Lease of business machines	8,434	
Staff training and travel	6,820	
Printing	3,697	
Miscellaneous	3,426	
Dues and publications	3,125	
Equipment maintenance	2,278	
Legal fees	235	
Total contractual services		987,258
Materials and supplies:		
Office supplies		25,050
Depreciation expense		
		147,194
Total administrative expenses		\$ 2,913,458

Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF INVESTMENT EXPENSES
SCHEDULE OF PAYMENTS TO CONSULTANTS
For the Year Ended June 30, 2008

Schedule of Investment Expenses

Investment expenses:	<u>Fees</u>
Investment management fees	\$ 5,929,640
Securities lending fees	300,467
Custodial fees	183,963
Investment consultant fees	<u>162,000</u>
Total investment expenses	<u>\$ 6,576,070</u>

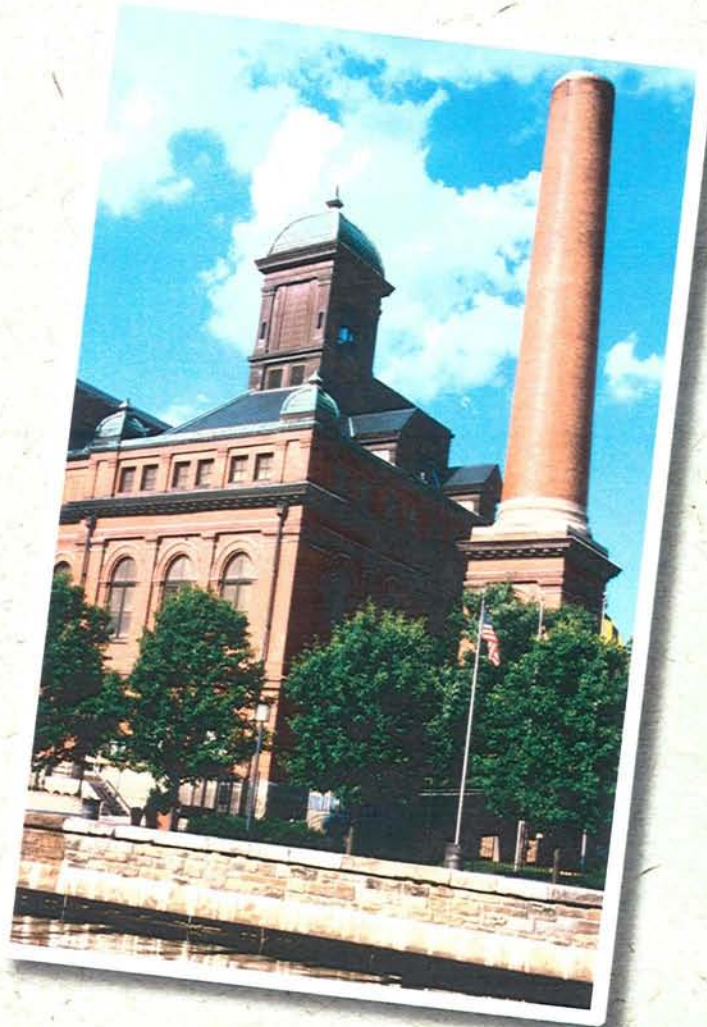
Schedule of Payments to Consultants

<u>Firm</u>	<u>Fees</u>	<u>Nature of Service</u>
Cherion	\$86,369	Actuarial Services
Baltimore City Department of Audits	31,058	Financial Audit
NRP Financials	<u>10,000</u>	Investment Consultant Search
Total of payments to consultants	<u>\$127,427</u>	

Note: A schedule of fees and commissions is also illustrated in the Investment Section on page 49.

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Investment Section



BALTIMORE POWERPLANT



ERS
EMPLOYEES'
RETIREMENT
SYSTEM
of the CITY OF BALTIMORE



INVESTMENT CONSULTANT'S REPORT

Introduction

This report, prepared for the City of Baltimore Employees' Retirement System (ERS) by Callan Associates Inc., is based on information supplied by the System's custodian, Mellon Bank, N.A (Mellon). Mellon provides Callan Associates with beginning and ending market values, cash flows, and positions for the ERS as well as each manager, where applicable. Mellon audits the information contained in its accounting reports monthly. Investment information is reported to the greatest degree possible in conformance with the presentation standards of Global Performance Investment Standards (GIPS) formerly known as AIMR.

Distinction of Responsibilities

The Board of Trustees (Trustees) of the Employees' Retirement System (ERS) is responsible for establishing the investment policy, or strategic asset allocation, which is the primary determinant of investment returns on assets. A thorough understanding of the plan's liabilities is essential for determining appropriate asset allocations. The two drivers of the analysis are the projections of the plan's liabilities and the projections of future capital market performance. Projections are generated for all the key dimensions of the System: membership, benefits, liabilities, assets, and funding requirements. The Trustees considered the potential financial implications of a wide range of policies and has arrived at the investment policy after consideration. Late in fiscal year 1998, the Trustees adopted new investment policy guidelines as a result of an asset/liability study performed by Callan. An asset/liability study conducted by Callan Associates in 2002 resulted in no change to these guidelines. A subsequent asset liability study conducted by Callan Associates in 2005 resulted in the addition of hedge funds as well as a realignment of all asset classes as defined in the investment policy/structure section of this document below.

The investment managers appointed to execute the policy will invest ERS assets in accordance with the policy guidelines and with their judgment concerning relative investment values. In particular, the investment managers are accorded full discretion to: (1) select individual securities, (2) make periodic strategic adjustments to the mix of the common stock and fixed income securities, where applicable and (3) diversify their portfolios.

Investment Policy/Structure

The System's investment policy was designed to provide broad diversification among asset classes in order to maximize return at an appropriate level of risk and to minimize the risk of large losses to the System. In addition, asset allocation ranges have also been implemented to maintain compliance with the investment policy and to ensure that the ERS will achieve its long-term risk and return objectives. The following table outlines the ERS's investment policies:

Asset Class	Allocation Target
U.S. Equity	41%
International Equity	14%
Total Public Equity	55%
U.S. Fixed Income	26%
Real Estate	9%
Alternatives	5%
Absolute Return	5%
Total Portfolio	100%

Within each asset class, the Trustees have employed several investment managers to further diversify the investment approach and to minimize style biases. The Trustees have employed both active and passive investment strategies to obtain the desired asset allocation mix in the most cost effective and efficient manner.

Investment Objective

The ERS's investment objective is to outperform the return of a policy portfolio consisting of 41% Russell 3000, 14% MSCI ACW ex US, 26% Lehman Bros. Agg, 9% CPI+6%, 5% Tbills plus 5%, and 5% ERS Alternative investments. In addition, the ERS's performance is evaluated relative to the Callan Associates Public Fund Universe, a universe representing the performance of 153 funds with an aggregate market value of \$1.1 trillion as of June 30, 2008. In addition, each individual manager portfolio is evaluated against the appropriate Callan peer group (style) universe.

Market Overview

The fiscal year ended June 2008 was very volatile for the capital markets with equity returns in negative territory. The domestic stock market as proxied by the Russell 3000 Index returned (12.69)%, the international stock market as proxied by the MSCI All Country World ex-US Index returned (6.20)%, and domestic fixed income as proxied by the Lehman Bros. Agg index returned 7.12%.

Investment Performance

For investment performance measurement purposes, the total investment portfolio was combined incorporating "actively managed" accounts and "other" assets. The "other" assets previously consisted of the Cash Reserve, held for the payment of benefits and administrative expenses, and "Post Retirement" assets held in immunized portfolios dedicated solely for the purpose of paying post retirement benefit increases. All assets are displayed below.

For the fiscal year ended June 30, 2008, the ERS's rate of return was also in negative territory at (4.83)% and under performed in relative terms by 2.02% versus the blended benchmark, ranking in the 49th percentile of the Callan's public fund universe. Under performance versus the benchmark was primarily due to manager performance in domestic fixed income, international equity, and real estate.

The market value of the ERS assets increased from \$1.29 billion on June 30, 2007, to \$1.36 billion on June 30, 2008. The increase in total fund reported value for this report was attributable to incorporating the "other" assets in the total fund. At the end of fiscal year 2008, the System's assets were allocated as follows:

	Market Value (in millions)	Percent of Total	Fiscal Year Rate of Return	
			ERS	Benchmark
U.S. Equity	\$570.9	42.1%	(11.74)%	(12.69)%
International Equity	183.2	13.5%	(10.71)%	(6.20)%
U.S. Fixed Income	372.4	27.5%	4.60%	7.12%
Real Estate	123.4	9.1%	7.74%	11.55%
Private Equity	40.7	3.0%	3.63%	3.63%
Absolute Return	64.2	4.7%	1.25%	8.63%
Reserve	2.6	0.2%	4.66%	4.54%
Total Fund	\$1,357.4	100.0%	(4.83)%	(2.81)%



Mark Kline
Callan Associates Inc.
December 5, 2008

Employees' Retirement System
City of Baltimore, Maryland
OUTLINE OF INVESTMENT OBJECTIVES AND POLICIES

Investment Objectives

The primary investment objectives of the Employees' Retirement System (the Plan) are set forth below. It is recognized that maximizing any one objective may compromise the achievement of other objectives. For example, maximizing liquidity may reduce investment return; seeking maximum investment return may subject capital preservation to higher risk. Accordingly, the following investment objectives are given in descending order of priority:

1. To preserve the capital value of the Plan adjusted for inflation;
2. To ensure adequate Plan liquidity to meet benefit liabilities as they fall due;
3. To meet the actuarial interest rate assumptions; and
4. Without unduly jeopardizing the above objectives, to exceed the investment return objective by the astute management of funds.

General Investment Policy

The Employees' Retirement System must comply with investment restrictions imposed by the laws of the City of Baltimore and any other State or Federal laws dealing with investment of public retirement plan assets. The Plan's investment managers are expected to familiarize themselves with these laws.

Investment policy for the Plan relates to the portfolio of all assets that comprise the total holdings of the Plan. The Board of Trustees (Board) recognizes that the objective of a sound and prudent policy is to produce investment results that will preserve the assets of the Plan, as well as, to maximize earnings of the Plan consistent with its long-term needs. These long-term needs have been ascertained through various studies performed on behalf of the Board by its actuary and its investment advisor. Investment policy and the long-term average allocation of plan assets to which they refer are deemed to be consistent with the projected pattern of cash flows to the Plan and its projected benefit payments. Should the projected finances of the Plan change significantly, the applicable Federal or State statutes be amended, or changes in the Plan's asset valuation methods be adopted, these policies and average asset allocations will be reviewed and modified by the action of the Board, if appropriate.

In general, the Board recognizes that large pools of assets must be diversified over several different security classifications in order to reduce risk. The following asset allocation has been established as an overall objective for the total holdings of the Plan:

% of Total Fund at Market Value

<u>Asset Category</u>	<u>Target</u>
Domestic equity	41%
Fixed income	26%
International equity	14%
Real estate	9%
Alternative investments	5%
Hedge funds	5%

Within each major security classification, investments should be diversified and excessive concentration in any particular security, company or industry is to be avoided. Detailed guidelines in this regard have been supplied to each of the Plan's investment managers. Additionally, each is expected to be familiar with the investment provisions in Article 22 of the Baltimore City Code. Subject to these objectives and guidelines, and the Plan laws referenced herein, the investment managers shall have full discretion in investment decisions. Managers are advised to notify the Board in writing if these objectives cannot be met or if the guidelines constrict performance, and are encouraged to suggest changes in these guidelines at any time.

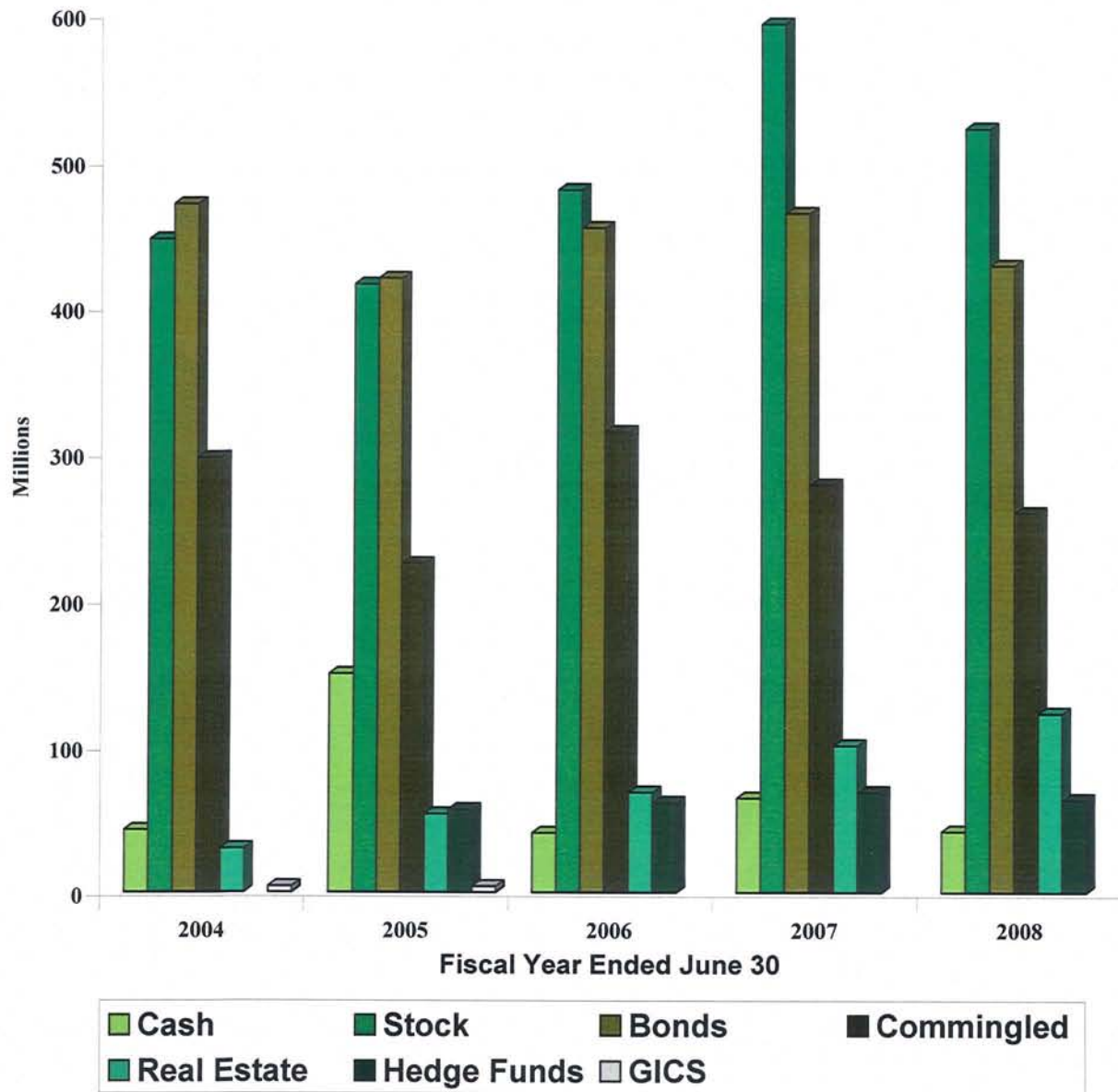
OUTLINE OF INVESTMENT OBJECTIVES AND POLICIES

Proxy Voting

Pursuant to a U.S. Department of Labor directive, the Board of Trustees has a long standing policy that, when solicitations of proxies with respect to securities are received by an investment manager, the decisions as to whether and how to vote such proxies are delegated to that investment manager.

The Board also recognizes however, that the investment manager's decisions must be made in accordance with applicable legal standards and that the Board has an obligation to ensure that those standards are being observed. Therefore, the Board requests that annually (June 30) each management firm furnish the Plan with a written statement of their policy and practices with respect to the voting of securities held in their employee benefit plan asset portfolios, together with their written assurance that such policies and practices are being followed. These statements and assurances will be included, and will be given appropriate weight, in the Board's continuing evaluation of each manager's overall investment performance.

Employees' Retirement System
City of Baltimore, Maryland
PORTFOLIO COMPOSITION
MARKET VALUE OF INVESTMENTS



(amounts expressed in millions)

	2004		2005		2006		2007		2008	
Cash	\$ 43	3%	\$ 150	10%	\$ 41	3%	\$ 65	5%	\$ 42	3%
Stock	447	34	416	31	481	34	594	38	523	36
Bonds	471	45	420	32	455	32	465	30	429	30
Commingled	297	16	225	17	315	22	279	18	260	18
Hedge Funds	0	0	57	4	62	4	69	6	64	4
Real Estate	30	1	54	4	69	5	101	4	123	9
GICS	4	1	4	1	0	0	0	0	0	0
Total	\$ 1,292	100%	\$ 1,326	100%	\$ 1,423	100%	\$ 1,573	100%	\$ 1,441	100%

Employees' Retirement System
City of Baltimore, Maryland

INVESTMENT RESULTS - TIME WEIGHTED RATE OF RETURN, CURRENT VALUE BASIS

		<u>Annualized</u>	
	<u>FY 2008</u>	<u>3 Years</u>	<u>5 Years</u>
TOTAL PORTFOLIO	(4.83)%	7.82%	9.12%
Composite Benchmark	(2.81)	7.98	9.57
DOMESTIC EQUITIES	(11.74)	5.24	8.85
Russell 3000 Index	(12.69)	4.73	8.37
INTERNATIONAL EQUITIES	(10.71)	14.24	15.95
MSCI AC Wld ex US Index	(6.20)	16.16	19.29
DOMESTIC FIXED INCOME	4.60	3.27	3.21
Lehman Aggregate	5.72	3.99	3.89
REAL ESTATE	7.74	11.12	9.84
Total Property Index	7.63	14.81	14.69
HEDGE FUNDS	1.25	7.23	0.00
Broadly Diversified fund of funds	1.55	8.26	7.67

Notes:

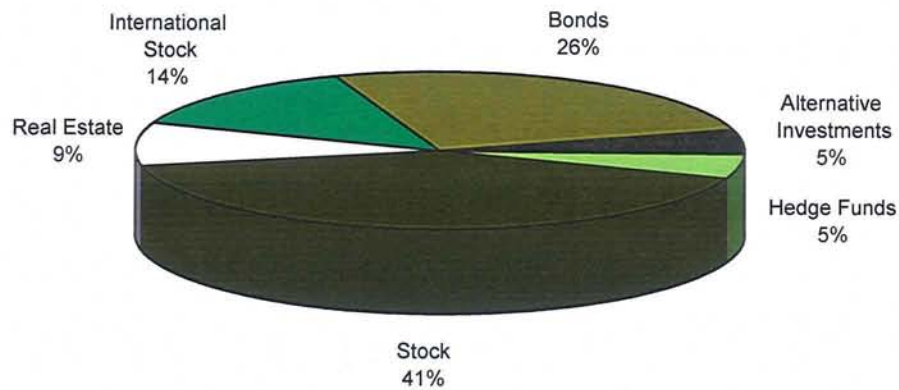
The calculations above were prepared by the Employees' Retirement System's investment advisor, using a time weighted rate of return, based on market value.

The performance shown for the Total Portfolio does not include "Other Assets" dedicated to the payment of post-retirement benefit increases.

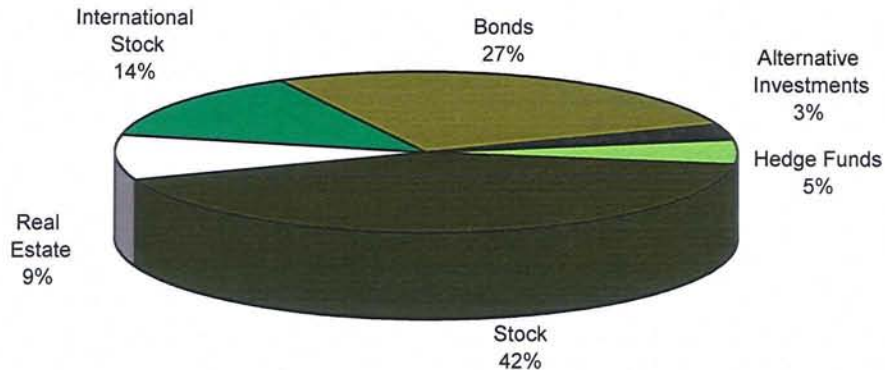
The Composite Benchmark exhibits the overall rate of return for a sample unmanaged portfolio. The Composite Benchmark is comprised of 41.0% Russell 3000, 26.0% LB Aggregate, 9.0% CPI-W +6.0%, 5.0% 3 month Treasury Bill +5.0%, 5.0% ERS Alternative Investment, and 14.0% MSCI ACW ex US Free index.

Employees' Retirement System
City of Baltimore, Maryland
ASSET ALLOCATION - ACTIVELY MANAGED ACCOUNTS
June 30, 2008

TARGET ASSET ALLOCATION



ACTUAL ASSET ALLOCATION



Note: For asset allocation purposes, only actively managed accounts are included. Assets in the mutual funds are allocated between domestic equity and domestic fixed income based on the percentage held by the investment managers at June 30, 2008. Assets of the Paid Up Benefit Reserve and the Contingency Reserve are not included in this illustration. The assets of these reserves are invested separately for the sole purpose of providing retirement benefit increases. Assets in the cash reserve are also excluded from this illustration. These assets are for the purpose of providing cash for the payment of benefit and administrative expenses.

TOP TEN EQUITY AND FIXED INCOME HOLDINGS BY MARKET VALUE

June 30, 2008

Top Ten Domestic Equity Holdings

	Shares	Stock	Market Value
1)	86,340	EXXON MOBIL CORPORATION	\$7,609,144
2)	58,294	CHEVRON CORPORATION	5,778,684
3)	88,519	DU PONT E I DE NEMOURS & COMPANY	3,796,580
4)	214,859	PHIZER INC.	3,753,587
5)	66,481	WAL MART STORES INC.	3,736,232
6)	55,949	JOHNSON & JOHNSON	3,599,759
7)	20,445	APPLE INC.	3,423,311
8)	127,013	GENERAL ELECTRIC COMPANY	3,389,977
9)	46,281	3M COMPANY	3,220,695
10)	114,928	MICROSOFT CORPORATION	3,161,669

Top Ten International Equity Holdings

	Shares	Stock	Market Value
1)	46,854	BASF	\$3,234,828
2)	63,500	TOYOTA MOTOR CORPORATION	3,001,132
3)	96,709	AXA	2,873,696
4)	26,553	BNP PARIBAS	2,407,219
5)	457	NIPPON TEL & TEL CORPORATION	2,241,781
6)	106,700	TELENOR	2,006,864
7)	30,300	SHIN-ETSU CHEMICALS COMPANY	1,880,798
8)	18,181	CONTINENTAL	1,856,201
9)	10,513	ALLIANZ	1,853,484
10)	159,619	BP PLC	1,852,785

Top Ten Domestic Fixed Income Holdings

	Par	Notes and Bonds	Market Value
1)	\$22,000,000	U.S. TREASURY BOND STRIP 0.000% DUE 05/15/2030	\$ 7,946,400
2)	6,900,000	U.S. TREASURY NOTES 3.625% DUE 06/15/2010	7,041,450
3)	5,840,000	U.S. TREASURY NOTES 5.000% DUE 02/15/2011	6,168,500
4)	4,245,000	FEDERAL HOME LOAN BANKS 4.875% DUE 05/17/2017	4,311,256
5)	3,850,522	FED. NATL. MORTGAGE ASSN VAR RT DUE 11/01/2037	3,947,671
6)	3,783,151	FED. NATL. MORTGAGE ASSN 6.500% DUE 12/01/2047	3,846,671
7)	8,000,000	U.S. TREASURY BOND STRIP 0.000% DUE 08/15/2026	3,392,800
8)	3,175,000	U.S. TREASURY NOTES 4.500% DUE 02/15/2011	3,310,890
9)	3,000,000	FED. NATL. MORTGAGE ASSN 5.250% DUE 01/15/2009	3,032,310
10)	3,000,000	U.S. TREASURY STRIP 0.000% DUE 05/15/2012	2,666,100

A complete list of portfolio holdings is available upon request.

Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT SUMMARY
June 30, 2008

	<u>Market Value</u>	<u>Percent of Market Value</u>
Stock:		
Technology	\$ 53,551,360	3.83 %
Financial	50,673,507	3.62
Energy	46,157,445	3.30
Health care	33,981,300	2.43
Consumer services	28,354,744	2.03
Capital goods	27,837,534	1.99
Consumer nondurables	19,705,114	1.41
Basic industries	13,978,510	1.00
Chemicals	9,484,959	0.68
Transportation	7,222,585	0.51
Utilities	6,946,363	0.50
Business services	4,631,685	0.33
Consumer durables	1,469,894	0.11
Total stock	<u>303,995,000</u>	<u>21.74</u>
Other		
International stock	178,408,560	12.76
Private equity	39,803,761	2.85
Total other	<u>218,212,321</u>	<u>15.61</u>
Total stock	<u>522,207,321</u>	<u>37.35</u>
Bonds:		
U.S. securities and agencies		
U.S. agencies	120,409,450	8.61
Treasury notes and bonds	49,134,431	3.51
Total U.S. securities and agencies	<u>169,543,881</u>	<u>12.12</u>
Corporate		
Financial	213,931,387	15.30
Industrial	32,389,875	2.32
Utilities	13,043,716	0.93
Total corporate	<u>259,364,978</u>	<u>18.55</u>
Total bonds	<u>428,908,859</u>	<u>30.67</u>
Other investments:		
Commingled funds	259,704,591	18.57
Real estate	123,381,407	8.82
Hedge Funds	64,216,773	4.59
Total other investments	<u>447,302,771</u>	<u>31.98</u>
Total investments	<u>\$1,398,418,951</u>	<u>100.00 %</u>

Employees' Retirement System
City of Baltimore, Maryland
SUMMARY SCHEDULE OF FEES AND COMMISSIONS
For the Year Ended June 30, 2008

	<u>Assets Under Management</u>	<u>Fees</u>
Investment managers' fees		
Domestic equity	\$303,995,000	\$1,854,599
International equity	178,408,560	1,064,820
Fixed income	428,908,859	562,323
Commingled funds	259,704,591	79,782
Securities lending		300,467
Real estate	123,381,407	972,083
Private equity	39,803,761	660,917
Hedge funds	64,216,773	735,116
Total investment managers' fees		<u>\$6,230,107</u>
Other investment service fees:		
Custodial fees		\$183,963
Investment consultant fees		162,000
Total other investment service fees		<u>\$345,963</u>

Brokerage Fees

Broker's fees on investment transactions for the year ended June 30, 2008 amounted to \$666,787. A list of the brokers receiving more than \$4,100 in fees are listed below.

Brokerage Firms	Fees Paid	Brokerage Firms	Fees Paid
Instinet Corporation	\$60,861	Jefferies & Company Inc.	\$11,041
Ridge Clearing and Outsourcing	56,782	GRW Capital Corporation	10,995
Merrill Lynch	44,547	Bear Stearns & Co Inc.	9,675
Citigroup Global Market Inc.	31,500	Loop Capital Markets LLC	9,353
J P Morgan Securities Inc.	27,057	TIR Securities	8,838
Goldman Sachs, Intl.	26,491	Bernstein Sanford C & Co	8,136
BNY Brokerage LLC	24,542	Credit Agricole Cheuvreux	7,391
UBS Securities LLC	21,798	Wachovia Capital Markets LLC	6,422
Morgan Stanley & Co. Inc.	21,616	Macquarie Securities	4,684
FRS Sec LLC	20,134	Pulse Trading LLC	4,626
Credit Suisse First Boston Corp	18,257	Credit Lyonnais Securities	4,489
Liquidnet Inc.	16,439	Chase Bank	4,374
Deutsche Bank	16,381	Cabrera Capital Markets	4,290
Investment Technology Groups	15,026	Banc of America Securities LLC	4,273
Lehman Bros. Inc.	14,749	Williams Capital Group LP	4,237
Stifel Nicolaus	12,145	Pipeline Trading Systems LLC	4,157

Brokerage Commissions

Because of the highly visible nature of the Employees' Retirement System, it is important that the investment managers have as a primary objective in investment transactions to obtain the best execution in all cases. While the investment managers are permitted to direct a portion of commissions for research, it is expected that each manager will receive commission discounts which are commensurate with current discount practice. Investment managers are expected to give first preference whenever possible to brokerage firms with offices located in the Baltimore Metropolitan Area. However, the managers are expected to negotiate commission rates, and local brokerage firms should be given preference only when commission rates and transaction services are competitive with those available from other firms.

Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT PROFESSIONALS

EQUITY MANAGERS

Brown Investment Advisory, Inc.
Patricia Carroll
Baltimore, Maryland

The Edgar Lomax Company
Randall Eley
Springfield, Virginia

Rothschild Asset Mgmt. Inc.
T. Radey Johnson
New York, New York

Chicago Equity Partners
Michael Nairne
New York, New York

Palisades Inv. Partners, LLC
Quinn R. Stills
Santa Monica, California

TimesSquare Capital Mgt. LLC
Jacqueline M. Zuklie
New York, New York

Turner Investment Mgt., LLC
John Finnegan
Berwyn, Pennsylvania

EQUITY FUND OF FUNDS

Group Advisor

FIS Funds Management, Inc.
Tina Byles Williams
Philadelphia, Pennsylvania

Atlanta Life Investment Advisors
Randell A. Cain, Jr., CFA
Atlanta, Georgia

Apex Capital Mgmt. LLC
Mike Kalbfleisch
Dayton, Ohio

Delancey Capital Mgmt.
Mark Corbin
Philadelphia, Pennsylvania

Denali Investment Advisors
Bob Snigaroff
San Diego, California

Opus Capital Management
Kevin Whalen
Cincinnati, Ohio

Lombardia Capital
Albert Chavez
Pasadena, California

Profit Investment Management
Eugene Profit
Silver Spring, Maryland

OakBrook Investments
Janna L. Sampson
Lisle, Illinois

Affinity Investment Advisors
Greg Lai
Irvine, California

Winslow Capital Management
Clark J. Winslow
Minneapolis, Minnesota

Thomas White International
Douglas M. Jackman, CFA
Chicago, Illinois

Fortaleza Asset Management
Margarita Perez, CFA
Chicago, Illinois

Great Northern Capital
Jay Rothmeier
St. Paul, Minnesota

BRC Investment Management
J. David DuRie
Greenwood Village, Colorado

INTERNATIONAL EQUITY MANAGERS

Philadelphia International Advisors, LP
James S. Lobb
Philadelphia, Pennsylvania

Thornburg Investment Advisors
Peter Trevisani, CFA
Santa Fe, New Mexico

HEDGE FUND MANAGERS

Attalus Capital
John Boles
Philadelphia, Pennsylvania

Grosvenor Capital Management, LLC
David Holmberg
Chicago, Illinois

FIXED INCOME MANAGERS

Utendahl Capital Management, L.P.
Thomas Mandel
New York, New York

Western Asset Management, Inc.
Joseph C. Carieri
Pasadena, California

Loomis Sayles & Company, LP
Steven J. Doherty, CFA
Washington, D.C.

REAL ESTATE MANAGERS

American Realty Advisors
Stanley Iezman
Glendale, California

CBRE Global Real Estate Securities, LLC
William K. Morrill, Jr.
Baltimore, Maryland

Hancock Timber Resources Group
John T. Perda
Boston, Massachusetts

Apollo Real Estate
Steven M. Wolf
Atlanta, Georgia

JP Morgan Investment Management, Inc.
Douglas P. Lawrence
New York, New York

Thor Equities, LLC
Joseph J. Sitt
New York, New York

VENTURE CAPITAL MANAGERS

Abbott Capital, Inc.
Charles H. van Horne
New York, New York

Fairview Capital III, L.P.
Laurence C. Morse
West Hartford, Connecticut

Maryland Venture Capital Trust
Lawrence J. Bach
Baltimore, Maryland

CASH MANAGEMENT

Standish Mellon
James Kohley, CFA
Pittsburgh, Pennsylvania

SECURITIES LENDING

BNY Mellon Global Securities Lending
Renee Rawls
Pittsburgh, Pennsylvania

Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT PROFESSIONALS (continued)

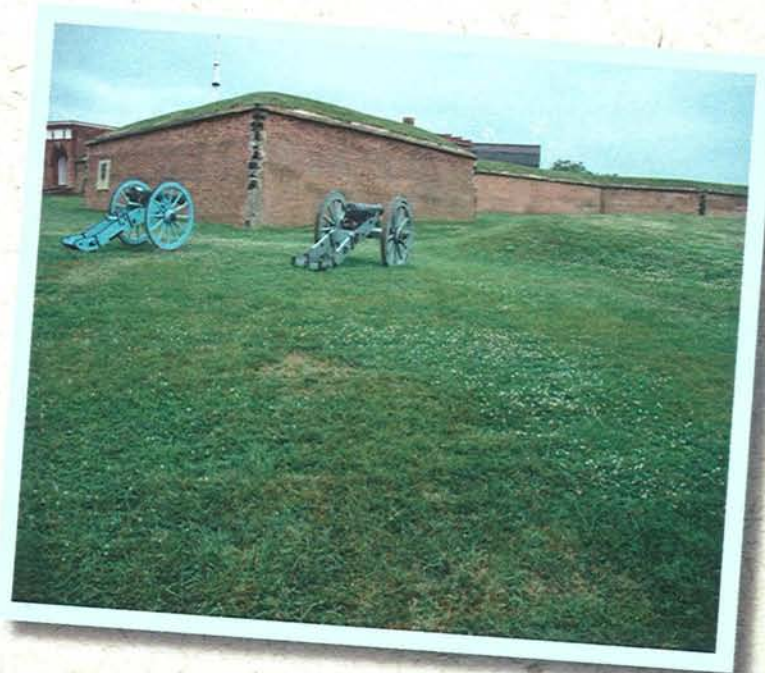
GLOBAL CUSTODIAN

BNY Mellon Asset Servicing
Arlene C. Sefcik
Pittsburgh, Pennsylvania

INVESTMENT ADVISOR

Callan Associates, Inc.
Mark Kline
Florham Park, New Jersey

Actuarial Section



FORT MCHENRY

December 22, 2008

Board of Trustees
Employees' Retirement System
7 East Redwood Street
12th Floor
Baltimore, Maryland 21202-3470

Honorable Members of the Board of Trustees:

Cheiron Inc, performs an actuarial valuation of the System at the end of each fiscal year. The most recent valuation, as of June, 30 2008, determined the employer's contribution for the plan year beginning July 1, 2008. Because the contribution is always accrued, it is our understanding the contribution plus interest is historically made during the 2010 fiscal year.

The funding method used in the annual valuation is the Projected Unit Credit Cost method. This method tends to produce level contributions as a percentage of covered payroll as long as the average age of active membership does not change. If the average age were to increase, the Normal Cost portion of the employer's contribution would increase as a percentage of covered payroll. The employer's contribution is increased or decreased to amortize as a level dollar amount over 20 years the difference between the actuarial value of assets and the actuarial accrued liability.

The valuation is based on actuarial assumptions recommended by the actuary and approved by the Board of Trustees. The assumptions and methods used for funding purposes meet the parameters set forth in the disclosures presented in the financial section by Governmental Accounting Standards Board Statement No. 25. Some actuarial assumptions are incorporated into Article 22 of the Baltimore City Code. The plan provisions require a periodic review of the assumptions by the Actuary. The most recent review examined experience from 2002 to 2006 and resulted in changes that were incorporated in the June 30, 2007 valuation. The current assumptions are a reasonable estimate of the anticipated experience of the System.

The valuation is based on a closed group of membership; no new hires are assumed. The actuarial value of assets for this disclosure is equal to the market value adjusted for investment performance above or below the assumed rate of return. Such gains or losses are aggregated and recognized at the rate of 20% each year. Membership data used for the actuarial valuation are supplied by the Retirement System. The data is examined by the actuary for reasonableness and consistency with the prior year's data. Asset information is provided on an unaudited basis.

All supporting schedules in the Actuarial Section and the Schedule of Funding Progress in the Financial Section have been prepared by the System and reviewed by Cheiron. The undersigned meet the qualification standards of the American Academy of Actuaries to render the actuarial opinion contained in this letter and the actuarial report.

Sincerely,
Cheiron



Kenneth Kent, FSA, FCA
Consulting Actuary



Margaret Tempkin, FSA
Consulting Actuary



ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS

Method of Funding:
(Effective 7/1/1989)

Liabilities and contributions shown in this report are computed using the Projected Unit Credit method of funding.

The Plan's normal cost is the present value of the benefit deemed to accrue in the plan year less the amount of anticipated employee contributions, if applicable.

The actuarial accrued liability is the sum of the individual's present value of accrued benefits at the beginning of the year.

The current Unfunded Actuarial Liability is amortized over 20 years. This 20-year period is restarted each year. The Trustees can elect to change this period.

Asset Valuation:
(Effective 6/30/1982)

The actuarial value of assets is equal to the market value, adjusted for investment surpluses and deficits over a five-year period.

The actuarial value of assets is the market value less cumulative unallocated earnings. Any contribution receivable for the upcoming fiscal year (as determined in the prior year's valuation) is added to the result.

Post Retirement Benefit Increases:
(Effective 6/30/2007)

Annual post-retirement benefit increases are 1.5%.

Additional increases may be provided when investment performance exceeds 6.8% provided for all participants in pay status for more than 18 months.

Interest:
(Effective 6/30/1999)

8.0% compounded annually until retirement except employee accumulations; 6.8% compounded annually after retirement.

Expenses:

Expenses are paid from the funds except investment management expenses which are paid from investment earnings. It is assumed that the fund will have sufficient earnings to pay these expenses and meet the interest assumption.

ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS (continued)

Salary Scale:
(Effective 6/30/07)

Salary increases are assumed to vary with age. Sample rates are as follows:

<u>Age</u>	<u>Annual Rate of Salary Increase</u>
20	.0695
25	.0660
30	.0603
35	.0545
40	.0493
45	.0448
50	.0425
55	.0425
60	.0425
65	.0425
69	.0425

The interest rate and salary assumptions are based on an inflation rate of approximately 3.00% (Effective 6/30/07).

Social Security:
(Effective 6/30/02)

4.00% per year compounded annually.

Additional Assumptions:
(Effective 6/30/07)

Inflation: 3.00%
Cost of Living: 1.50%, with variable based on excess returns.

Percent married: Males 80%, females 60%.
Spouse age: Female spouse assumed 4 years younger.
Remarriage rates: None

Employees' Retirement System
City of Baltimore, Maryland

ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS (continued)

Active decrements and service retirement rates are the same as presented in the June 30, 2008 actuarial valuation report. Sample rates as follow:

<u>Age</u>	<u>Withdrawals</u>			
	Less than <u>1</u>	<u>1</u>	<u>2</u>	More than <u>3</u>
25	0.2321	0.2100	0.1500	0.1150
30	0.2059	0.1780	0.1300	0.1050
35	0.1477	0.1380	0.1050	0.0800
40	0.1137	0.0980	0.0850	0.0550
45	0.1130	0.0980	0.0850	0.0450
50	0.1130	0.0980	0.0850	0.0450
55	0.1130	0.1100	0.0850	0.0500
60	0.1650	0.1600	0.1100	0.0750
65	0.4150	0.4100	0.3150	0.2800
69	0.4150	0.4100	0.3150	0.2800

<u>Age</u>	<u>Rates of Retirement</u>		
	Less than <u>30 years</u>	<u>30 years</u>	More than <u>30 years</u>
55-58	0.06	0.20	0.10
59	0.07	0.20	0.15
60	0.15	0.20	0.20
61	0.20	0.20	0.25
62	0.20	0.20	0.45
63-64	0.20	0.20	0.20
65	0.20	0.40	0.40
66-69	0.20	0.40	0.25
70	1.00	1.00	1.00

Employees' Retirement System
City of Baltimore, Maryland

ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS (continued)

<u>Age</u>	<u>Non-Line-of-Duty Disability</u>	<u>Line-of-Duty Disability (Class A&B)</u>	<u>Line-of-Duty Disability (Class C)</u>	<u>Non-Line-of-Duty Death</u>		<u>Line-of-Duty Death</u>
				<u>Male¹</u>	<u>Female¹</u>	
25	0.00050	0.00004	0.00008	0.0008	0.0003	0.00005
30	0.00059	0.00004	0.00008	0.0009	0.0004	0.00005
35	0.00115	0.00008	0.00016	0.0011	0.0005	0.00005
40	0.00236	0.00008	0.00016	0.0016	0.0008	0.00005
45	0.00425	0.00012	0.00024	0.0025	0.0011	0.00005
50	0.00675	0.00020	0.00039	0.0042	0.0017	0.00005
55	0.01043	0.00024	0.00047	0.0075	0.0027	0.00005
60	0.00579	0.00027	0.00055	0.0137	0.0055	0.00005
65	0.00130	0.00038	0.00076	0.0230	0.0104	0.00005
69	0.00078	0.00039	0.00078	0.0331	0.0147	0.00005

¹ Rates for individuals who are the age shown as of 6/30/08.

Mortality Rates for Retired and Disabled Members and Beneficiaries

<u>Age</u>	<u>Retirees and Beneficiaries</u>		<u>Disabled Members</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
55	0.007479	0.002733	0.053921	0.025292
60	0.013692	0.005449	0.064351	0.031382
65	0.023038	0.010371	0.076791	0.040883
70	0.036067	0.015999	0.095577	0.055684
75	0.059228	0.027014	0.012298	0.078406
80	0.095397	0.046930	0.161151	0.112736

The post-retirement mortality for service retirement is based on the 1994 Uninsured Pensioners' Generational Mortality table with generational projections using 50% of the AA scale projected to 2016 (rates effective 6/30/2008).

Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ACTIVE MEMBER VALUATION DATA

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase/ (Decrease) In Average Pay</u>
6/30/1999	10,779	\$305,212,012	\$28,315	3.7%
6/30/2000	10,593	308,895,853	29,160	3.0
6/30/2001	10,223	309,602,035	30,285	3.9
6/30/2002	9,827	305,521,211	31,090	2.7
6/30/2003	9,831	316,311,022	32,175	3.5
6/30/2004	9,722	322,914,690	33,215	3.2
6/30/2005	9,412	320,985,907	34,104	2.7
6/30/2006	9,193	331,888,366	36,102	5.9
6/30/2007	9,035	346,391,734	38,339	6.2
6/30/2008	9,280	367,517,242	39,603	3.3

Employees' Retirement System
City of Baltimore, Maryland

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ended	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase In Annual Allowances	Average Annual Allowances
	No.	Annual Allowances*	No.	Annual Allowances*	No.	Annual Allowances*		
6/30/1999	421	\$ 6,144,093	384	\$ 2,397,372	8,092	\$ 73,052,488	5.4 %	\$ 8,988
6/30/2000	341	5,393,198	378	2,443,889	8,055	76,001,797	4.0	9,435
6/30/2001	437	4,640,497	364	2,674,238	8,128	77,968,056	2.6	9,593
6/30/2002	622	6,861,717	427	3,078,931	8,323	81,750,842	4.9	9,822
6/30/2003	482	5,946,797	416	3,092,168	8,389	84,605,471	3.5	10,085
6/30/2004	534	6,850,549	436	3,591,049	8,487	87,864,971	3.9	10,353
6/30/2005	507	5,115,926	371	3,154,496	8,623	89,826,401	2.2	10,417
6/30/2006	473	5,572,251	408	3,239,121	8,688	92,159,531	2.5	10,607
6/30/2007	436	5,305,349	428	3,239,121	8,696	99,593,514	8.1	11,453
6/30/2008	382	5,359,740	440	3,953,061	8,638	103,487,280	3.9	11,980

* Includes post-retirement adjustments.

Employees' Retirement System
City of Baltimore, Maryland
SOLVENCY TEST

The Employees' Retirement System's funding objective is to meet long-term benefit promises through contributions which spread the cost over the employees' service base. If the contributions to the System are soundly executed, the System will pay all promised benefits when due - the ultimate test of financial soundness.

A short term solvency test is one means of examining a System's progress under its funding program. In a short-term solvency test, the plan's present assets are compared with: 1) Active member contributions on deposit; 2) The liabilities for future benefits to present retired lives; 3) The liabilities for future benefits to terminated vested members; and 4) The liabilities for service already rendered by active members. In a system which has been following the discipline of allocating cost on a consistent basis to valuation years, the liabilities for active member contributions on deposit (liability 1), the liabilities for future benefits to present retired lives (liability 2), and the liabilities for future benefits to terminated vested members (liability 3) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 4) will be partially covered by the remainder of present assets. Generally, the funded portion of liability 4 will increase over time. Liability 4 being fully funded is rare.

The schedule below illustrates the System's history of liability 4.

Aggregate Accrued Liabilities For:											
Valuation Date	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Terminated Vested Members	(4) Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets					
						(1)	(2)	(3)	(4)		
6/30/1999	\$8,210,398	\$734,370,779	\$13,888,567	\$436,561,613	\$1,247,951,875	100%	100%	100%	100%	112.6%	
6/30/2000	8,259,801	739,088,699	15,465,717	454,807,452	1,309,547,725	100	100	100	100	120.2	
6/30/2001	7,646,329	755,957,926	18,247,395	501,178,623	1,374,100,736	100	100	100	100	118.2	
6/30/2002	7,015,293	791,902,477	26,485,346	514,644,381	1,365,617,359	100	100	100	100	105.0	
6/30/2003	6,591,612	824,483,064	21,613,489	522,059,753	1,408,545,332	100	100	100	100	106.5	
6/30/2004	6,273,379	869,826,880	23,580,754	537,210,520	1,397,581,780	100	100	100	100	92.7	
6/30/2005	5,585,067	898,978,213	27,015,479	545,367,724	1,403,206,754	100	100	100	100	87.8	
6/30/2006	5,142,918	937,648,822	29,987,196	578,363,462	1,411,165,976	100	100	100	100	75.8	
6/30/2007	4,891,816	991,713,294	33,164,687	568,912,381	1,447,196,612	100	100	100	100	73.4	
6/30/2008	4,265,169	1,023,749,711	37,096,665	598,966,777	1,475,533,717	100	100	100	100	68.5	

Employees' Retirement System
City of Baltimore, Maryland
ANALYSIS OF FINANCIAL EXPERIENCE

**Gains and Losses in Accrued Liabilities During Fiscal Year
Resulting from Differences Between Assumed Experience and Actual Experience**

<u>Type of Activity</u>	<u>Gain or (Loss) for Year 2007</u>	<u>Gain or (Loss) for Year 2008</u>
Age and Service Retirements If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher pays, a loss.	\$ (11,000,000)	\$ (13,574,866)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(310,000)	(3,880,000)
Death-in-Service Benefits If survivor claims are less than assumed, there is a gain. If more claims, a loss.		2,440,000
Withdrawal From Employment If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	280,000	370,000
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(15,360,000)	3,230,000
Investment Income If there is greater investment income than assumed, there is a gain. If less, a loss.	(3,570,000)	(25,207,746)
Death After Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	11,800,000	(14,590,000)
New Entrants New entrants create a loss because they were not assumed in the previous evaluation.	(1,650,000)	(2,130,000)
Increase in Periodic Pension One time increase in periodic benefit payments-effective only during 2007 valuation.	(13,321,000)	-
Assumption and Asset Method Changes Changes due to the 2007 experience study assumption changes and the change in accounting and liability	(12,192,464)	-
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	10,590,000	2,941,956
Loss During Year From Financial Experience	<u>\$ (34,733,464)</u>	<u>\$ (50,400,656)</u>

Employees' Retirement System
City of Baltimore, Maryland
SUMMARY OF PLAN PROVISIONS
June 30, 2008

1. EFFECTIVE DATE:

The Employees' Retirement System was established by City Ordinance, effective January 1, 1926, and has been amended periodically.

2. ELIGIBILITY:

Any regular and permanent officer, agent, or employee of the City with the exception of those required to join the Maryland State or other Retirement System will become a Class C member of the Employees' Retirement System upon completion of one year of employment. The Board of Estimates may authorize prospective membership for any class of part-time employees. There are three classes of members as follows:

Class A - Members who were hired before July 1, 1979, and entered membership on or after January 1, 1954, or who were employed and elected prior to April 1, 1954, to contribute at the higher Class A rate.

Class B - Members as of January 1, 1954, who did not elect Class A membership. Any Class B member may elect to become a Class A member by bringing his accumulated contributions and interest up to what they would be if he had elected Class A membership on January 1, 1954.

Class C - Members who were hired on or after July 1, 1979, or any other members who may have elected to transfer during various open transfer periods to Class C membership.

3. MEMBER CONTRIBUTIONS:

Class C members make no contributions. Class A and Class B members contribute 4% of earnable compensation. Contributions are not required upon attaining age 60 and completing 35 years of service.

4. COMPENSATION:

Earnable compensation is the annual salary authorized for the member, not including overtime, differential pay, environmental pay, hazardous duty pay, pay for conversion of leave or other fringe benefits, or any like additional payment.

Average final compensation is the average of the member's annual earnable compensation on January 1 for the three successive years of service when the member's earnable compensation is the highest or, if the member is in service on January 1 for less than three successive years, then the average during total service.

Covered compensation (for Class C members only) is the average of the FICA wage base for the 35 year period ending with the calendar year which ends immediately prior to the earlier of: (1) January 1, which is one year prior to January 1 of the calendar year in which member terminates employment; or (2) January 1 of the calendar year in which the member attains age 65.

5. MILITARY SERVICE CREDIT:

(A) Classes A and B

(1) Military Service Prior to Employment: A maximum of three years service credit is granted provided the member has acquired:

(a) 10 years of service and has reached the age of 60; or

Employees' Retirement System
City of Baltimore, Maryland
SUMMARY OF PLAN PROVISIONS
June 30, 2008

(b) 20 years of service, regardless of age.

- (2) **Military Service Within Employment:** Upon retirement or death, any member who had a break in employment due to military duty, will receive service credit for the period of absence as provided by the Veterans' Reemployment Rights Act and the Uniformed Services Employment and Reemployment Rights Act of 1994.

(B) **Class C**

- (1) **Military Service Prior to Employment:** A maximum of three years service credit is granted provided the member has acquired:

(a) 10 years of service and has reached the age of 62; or

(b) 20 years of service, regardless of age.

- (2) **Military Service Within Employment:** Upon retirement or death, any member who had a break in employment due to military duty, will receive service credit for the period of absence as provided by the Veterans' Re-employment Rights Act and the Uniformed Services Employment and Reemployment Rights Act of 1994.

6. **SERVICE RETIREMENT:**

(A) **Classes A and B**

- (1) **Eligibility Requirements:**

(a) Age 60 with five years of service; or

(b) 30 years of membership service, regardless of age.

- (2) **Benefit Amount:** The sum of:

(a) an annuity of the actuarial equivalent of a member's accumulated contributions; plus

(b) a pension, which together with the annuity will be equal to 1.935% for Class A members and 1.785% for Class B members for each year of service, times the member's average final compensation.

(B) **Class C**

- (1) **Eligibility Requirements:**

(a) Age 65 with five years of service;

(b) 30 years of service, regardless of age; or

(c) Age 55 with five years of service, payable at age 65 or reduced for payment before age 65.

Employees' Retirement System
City of Baltimore, Maryland
SUMMARY OF PLAN PROVISIONS
June 30, 2008

- (2) **Benefit Amount:** The sum of:
- (a) a pension of 1.60% for each year of service (not to exceed 30), times the member's average final compensation; plus
 - (b) .25% for each year of service not to exceed 30, times member's average final compensation in excess of covered compensation; plus
 - (c) 1.85% for each year of service in excess of 30, times the member's average final compensation.

If a member elects to have his maximum or optional pension commence prior to normal retirement date, age 65 with less than 30 years, the amount of his pension will be reduced 6.667% for each of the first five years (prorated for shorter periods) and 3.333% for each of the next five years (prorated for shorter periods) by which the commencement of his pension precedes his normal retirement age 65.

- (3) **Offset to Retirement Allowance:** Unemployment compensation will be offset from pension benefits.

7. NON-LINE-OF-DUTY DISABILITY RETIREMENT:

(A) Classes A and B

- (1) **Eligibility Requirements:** Five years of service and determined by a hearing examiner to be mentally or physically incapacitated for the performance of duty, and that the incapacity is likely to be permanent.
- (2) **Benefit Amount:** The sum of:
- (a) an annuity of the actuarial equivalent of a member's accumulated contributions; plus
 - (b) a pension which, together with the annuity will equal 1.90% for Class A members and 1.75% for Class B members for each year of service, times the member's average final compensation.

The member will receive, as a minimum, the benefit as stated above or 25% of the member's average final compensation.

- (3) **Offset to Retirement Allowance:** This benefit is offset by:
- (a) workers' compensation; and
 - (b) earnings in excess of base amount (current earnable compensation in same job grade and step adjusted for longevity) with a \$1 reduction for each \$2 of the first \$5,000 of excess and a \$2 reduction for each \$5 of additional excess earnings.

Employees' Retirement System
City of Baltimore, Maryland
SUMMARY OF PLAN PROVISIONS
June 30, 2008

(B) **Class C**

- (1) **Eligibility Requirements:** Five years of service and determination by a hearing examiner to be mentally or physically incapacitated for the performance of duty, and that the incapacity is likely to be permanent.
- (2) **Benefit Amount:** The non-line-of-duty disability pension will be the greater of:
 - (a) a pension equal to the member's accrued service retirement benefit; or
 - (b) 15% of the member's average final compensation.
- (3) **Offset to Retirement Allowance:** This benefit is offset by workers' compensation.

8. **LINE-OF-DUTY DISABILITY RETIREMENT:**

(A) **Classes A and B**

- (1) **Eligibility Requirements:** Immediate eligibility upon membership in the System and determined by a hearing examiner to be incapacitated for the further performance of duty, and the incapacity resulted from an accident occurring while in the actual performance of duty without willful negligence.
- (2) **Benefit Amount:** The sum of:
 - (a) an annuity of the actuarial equivalent of the member's accumulated contributions; plus
 - (b) a pension equal to 66.667% of the member's average final compensation.
- (3) **Offset to Retirement Allowance:** This benefit is offset by workers' compensation.

(B) **Class C**

- (1) **Eligibility Requirements:** Immediate eligibility upon membership in the System and determination by a hearing examiner to be incapacitated for the further performance of duty, and the incapacity resulted from an accident occurring while in the actual performance of duty without willful negligence.
- (2) **Benefit Amount:** A pension equal to 66.667% of the member's average final compensation.
- (3) **Offset to Retirement Allowance:** This benefit is offset by workers' compensation.

9. **DISMEMBERMENT DISABILITY RETIREMENT (Class C only):**

- (A) **Eligibility Requirement:** Immediate eligibility upon membership in the System and determination by a hearing examiner that the loss of any two or more of hands, feet, sight of eye(s), or combination thereof, was a direct result of bodily injury from an accident that occurred while in the actual performance of duty.

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(B) **Benefit Amount:** A pension equal to 100% of the member's average final compensation.

(C) **Offset to Retirement Allowance:** This benefit is offset by workers' compensation.

10. TERMINATION OF EMPLOYMENT:

(A) **Classes A and B**

(1) **Eligibility Requirement:**

(a) For a termination retirement allowance deferred to age 60, the completion of:

(i) 15 years of service; or

(ii) Five years of service, if removed from a position without fault or if an elected or appointed official not re-elected or re-appointed.

(b) For a termination retirement allowance payable immediately without reduction for age, the completion of 20 years of service, if removed from a position without fault or if an elected or appointed official not re-elected or re-appointed.

(c) Eligible for a refund of accumulated contributions if not eligible for any other benefits.

(2) **Benefit Amount:**

(a) **Deferred Payment:** Determined the same as for service retirement, but based on membership service and average final compensation at the time of termination.

(b) **Immediate Payment:** Determined the same as if the member had retired with a non-line-of-duty disability retirement allowance.

(B) **Class C**

(1) **Eligibility Requirement:**

(a) For a termination retirement allowance deferred to age 65, completion of:

(i) 10 years of service; or

(ii) Five years of service, if removed from a position without fault or if an appointed official not re-appointed.

(b) For a termination retirement allowance payable immediately without reduction for age, the completion of 20 years of service, if removed from a position without fault or if an appointed official not re-appointed.

(2) **Benefit Amount:**

(a) **Deferred Payment:** Determined the same as for service retirement, but based on membership service and average final compensation at the time of termination.

- (b) **Immediate Payment:** Determined the same as for age 65 service retirement.

11. MAXIMUM ALLOWANCE AND OPTIONAL METHODS OF RECEIVING BENEFIT PAYMENTS:

- (A) **Lump Sum:** Under \$12,500 or as adjusted by the Board of Trustees.
- (B) **Maximum Allowance:** Upon retiree's death, 40% of retiree's maximum allowance to unremarried spouse or dependent children until the last dies or attains age 18 (age 22 if a full time student). All other options result in a lesser amount paid.
- (C) **Reserve Guarantee Option:** Upon retiree's death, a cash refund to retiree's designated beneficiary based on present value of allowance at retirement less payments made.
- (D) **100% Joint and Survivor Option:** Upon retiree's death, 100% of retiree's allowance to continue to designated beneficiary.
- (E) **50% Joint and Survivor Option:** Upon retiree's death, 50% of retiree's allowance to continue to designated beneficiary.
- (F) **50% Pop-Up:** Upon retiree's death 50% of retiree's allowance to continue to designated beneficiary. If designated beneficiary predeceases member, member receives Maximum and no survivorship benefit is paid.
- (G) **100% Pop-Up:** Upon retiree's death 100% of retiree's allowance to continue to designated beneficiary. If designated beneficiary predeceases member, member receives Maximum and no survivorship benefit is paid.
- (H) **Specific Benefit Option:** Upon the retiree's death and subject to the approval of the Board of Trustees, the member's designated beneficiary will receive:
- (1) a specific lump sum amount; or
 - (2) a specific periodic allowance.

These options are available for service, termination, non-line-of-duty disability, and line of duty disability retirement. Any option and/or beneficiary may be changed by the retired member within 30 days after retirement.

12. NON-LINE-OF-DUTY DEATH BENEFITS:

- (A) **Classes A and B**
- (1) **Lump Sum Benefit:**
 - (a) **Eligibility Requirements:** Member who
 - (i) dies while actively employed; and
 - (ii) whose death does not qualify as a line-of-duty death.

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(b) **Benefit Amount:** The designated beneficiary is paid:

- (i) the member's accumulated contributions; plus
- (ii) if member has one or more years of membership service, 50% of the greater of the member's average final compensation or current annual earnable compensation.

(2) **100% Survivorship Benefit:**

(a) **Eligibility Requirements:** This benefit is paid to the member's designated beneficiary spouse to whom he/she has been married for at least five years or his/her parent(s), provided the Member:

- (i) is eligible for service retirement at the time of death; or
- (ii) would have become eligible for service retirement within 90 days of the date of death; or
- (iii) retired on account of service, non line of duty disability, or line of duty disability and dies within 30 days of retirement; or
- (iv) is entitled to a deferred allowance at age 60 and dies anytime between the effective retirement date at age 60 and no later than 30 days following the attainment of age 60.

(b) **Benefit Amount:** The eligible beneficiary may elect in lieu of the Lump Sum Benefit or the 40% Survivorship Benefit, an allowance equal to the amount that would have been paid under the Service Retirement 100% Joint and Survivor Option.

(3) **40% Survivorship Benefit:**

(a) **Eligibility Requirements:** This benefit is paid to the member's designated beneficiary spouse with whom he has been married for at least one year prior to the date of death or to the member's unmarried children if less than age 18 (or age 22 if students), provided the Member:

- (i) died in active service; and
- (ii) had more than 20 years of service as of the date of death.

(b) **Benefit Amount:** The eligible beneficiary spouse or children may elect in lieu of the Lump Sum Benefit or the 100% Survivorship Benefit, an allowance equal to 40% of the member's accrued service retirement benefit.

(4) **Offset to Death Benefits:** These benefits are offset by any pension benefits paid before the members' death.

(B) **Class C**

(1) **Lump Sum Benefit:**

(a) **Eligibility Requirements:** Member who:

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- (i) dies while actively employed; and
- (ii) has one or more years of membership service, but whose death does not qualify as a line-of-duty death.

Benefit Amount: The designated beneficiary is paid:

- (i) the member's accumulated contributions, if any; plus
- (ii) one-time payment of 50% of the greater of the member's average final compensation or current annual earnable compensation.

(2) 100% Survivorship Benefit:

(a) **Eligibility Requirements:** This benefit is paid to the member's designated beneficiary spouse to whom he/she was married for at least 5 years or his parent(s), provided the member:

- (i) is eligible for service retirement at the time of death; or
- (ii) would have become eligible for service retirement within 90 days of the date of death; or
- (iii) retired on account of service, non line of duty disability, or line of duty disability and dies within 30 days of retirement; or
- (iv) is entitled to a deferred allowance at age 65 and dies anytime between the effective retirement date at age 65 and no later than 30 days following the attainment of age 65.

(b) **Benefit Amount:** The eligible beneficiary may elect in lieu of the Lump Sum Benefit or the 40% Survivorship Benefit, an allowance equal to the amount that would have been paid under the Service Retirement 100% Joint and Survivor Option.

(3) 40% Survivorship Benefit:

(a) **Eligibility Requirements:** This benefit is paid to the member's designated beneficiary spouse to whom he has been married for at least one year prior to the date of death or to the member's unmarried children if less than age 18 (or age 22 if students), provided the member:

- (i) died in active service; and
- (ii) had more than 20 years of service as of the date of death.

(b) **Benefit Amount:** The eligible beneficiary spouse or eligible children may elect in lieu of the Lump Sum Benefit or the 100% Survivorship Benefit, an allowance equal to 40% of the member's accrued service retirement benefit.

(4) Offset to Death Benefits: These benefits are offset by workers' compensation.

13. LINE-OF-DUTY DEATH BENEFITS:

(A) **Eligibility Requirements:** A determination by a hearing examiner that the death of a member was:

- (1) the direct result of bodily injury through accidental means independent of any pre-existing physical or medical conditions;
- (2) occurring while in the actual performance of duty; and
- (3) not caused by willful negligence on the part of the member.

(B) **Benefit Amount:** The sum of:

- (1) the member's accumulated contributions (if any); plus
- (2) an annual pension of 100% of current earnable compensation, payable to:
 - (a) the spouse during widow(er)hood, provided: (1) there is no voluntary separation agreement renouncing rights of inheritance; and (2) the member has not designated his children as beneficiaries;
 - (b) if no eligible spouse, or if the spouse dies or remarries, the child or children, equally, until age 18 (age 22 if a full-time student);
 - (c) if no eligible spouse or child surviving, then to the deceased's father and/or mother equally, or to the survivor;
 - (d) for Classes A and B, any member who retires and dies within 30 days after the effective date of accidental disability retirement will receive the above benefits if death is the result of injuries in the line-of-duty.

If no beneficiary and if intestate without heirs, then contributions will remain part of the System, and no death benefit is paid.

(C) **Offset to Retirement Allowance:** This benefit is offset by workers' compensation, net of legal and medical fees.

14. POST-RETIREMENT BENEFIT INCREASES:

Benefit increases are guaranteed annually at the rate of 1.5%. Additional increases are provided each year based on investment performance that exceeds 6.8% at June 30. Only retirees and their beneficiaries, who have been receiving periodic benefit payments as of the June 30 determination date, and members who have been retired for a minimum of 18 months are eligible for the increase. The actuarially determined increase is payable as an equal percentage increase to all eligible retirees and beneficiaries commencing the January 1 following the June 30 investment performance determination date.

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Statistical Section



Employees' Retirement System
City of Baltimore, Maryland
STATISTICAL SECTION SUMMARY

The statistical section of the Employees' Retirement System's (System) comprehensive annual financial report presents detailed information as a context for helping the reader understanding what the information in the financial statements, notes disclosures, required supplementary information, and the System's overall financial health for the last ten fiscal years. The different reports contained in this section are listed below.

Financial Trends

Plan Net Assets and Changes of Plan Net Assets schedules detail the System's financial performance from year to year.

Revenue Capacity

The Revenue by Source schedule list the different income streams of the System.

Expenses Capacity

The Expense by Type schedules contains information about the major costs of the System.

Demographic Information

The demographic schedules describe the ages, years of service, and income of the different memberships of the System.

Employees' Retirement System
City of Baltimore, Maryland
Statement of Plan Net Assets
For the Last Ten Fiscal Years

	1999	2000	2001	2002	2003
Assets					
Cash and cash equivalents	\$70,988,946	\$65,069,215	\$53,846,353	\$39,094,689	\$71,631,548
Receivables					
Investments sold	\$3,584,305	\$6,265,166	\$14,965,007	\$27,058,691	\$16,917,583
Accrued income	8,218,012	8,395,775	8,197,001	6,600,379	6,139,029
Other receivables	785,620	626,460	653,461	413,516	378,036
Total receivables	<u>\$12,587,937</u>	<u>\$15,287,401</u>	<u>\$23,815,469</u>	<u>\$34,072,586</u>	<u>\$23,434,648</u>
Capital assets					
Leasehold improvements					
Depreciation -leasehold improvements					
Net leasehold improvement total					
Office furniture					
Depreciation - office furniture					
Net office furniture total					
Office equipment					
Depreciation - office equipment					
Net office equipment total					
Total capital assets					
Investments, at fair value					
Stocks	\$476,224,673	\$503,884,753	\$410,638,790	\$371,156,677	\$390,224,941
Mutual Funds	268,971,279	289,261,685	273,822,624	248,841,885	195,366,241
Bonds	494,658,047	498,344,440	552,389,948	546,400,963	562,196,489
Real estate	31,468,651	28,383,250	25,235,077	21,862,843	13,431,419
Guaranteed investment contract	19,823,732	19,755,267	19,800,887	11,107,442	10,679,860
International stock					
Hedge funds					
Total investments	<u>\$1,291,146,382</u>	<u>\$1,339,629,395</u>	<u>\$1,281,887,326</u>	<u>\$1,199,369,810</u>	<u>\$1,171,898,950</u>
Securities lending collateral		<u>197,612,754</u>	<u>204,357,140</u>	<u>175,164,462</u>	<u>244,967,723</u>
Total assets	<u>\$1,374,723,265</u>	<u>\$1,617,598,765</u>	<u>\$1,563,906,288</u>	<u>\$1,447,701,547</u>	<u>\$1,511,932,869</u>
Liabilities					
Securities lending collateral		\$197,612,754	\$204,357,140	\$175,164,462	\$244,967,723
Investments purchased	\$42,798,454	37,694,509	48,780,693	56,504,944	68,608,276
Administrative expenses payable	132,867	114,773	284,270	311,318	131,383
Investment management fees payable	944,815	889,165	854,862	999,876	887,122
Retirement allowance payable	1,207,891	1,672,430	1,934,748	2,230,798	2,532,532
Other accounts payable	169,545	214,896	127,090	194,545	342,071
Total liabilities	<u>\$45,253,572</u>	<u>\$238,198,527</u>	<u>\$266,338,803</u>	<u>\$235,405,943</u>	<u>\$317,469,107</u>
Net assets held in trust for pension benefits	<u>\$1,329,469,693</u>	<u>\$1,379,400,238</u>	<u>\$1,307,567,485</u>	<u>\$1,212,295,604</u>	<u>\$1,194,463,762</u>

Employees' Retirement System
City of Baltimore, Maryland
Statement of Plan Net Assets (continued)
For the Last Ten Fiscal Years

	2004	2005	2006	2007	2008
Assets					
Cash and cash equivalents	\$43,506,881	\$150,295,548	\$41,446,410	\$64,626,981	\$42,396,549
Receivables					
Investments sold	\$9,493,458	\$50,009,583	\$12,163,576	\$21,326,885	\$26,309,928
Accrued income	4,829,446	3,692,408	4,187,385	4,251,234	5,346,910
Other receivables	390,381	302,672	283,537	204,785	152,633
Total receivables	<u>\$14,713,285</u>	<u>\$54,004,663</u>	<u>\$16,634,498</u>	<u>\$25,782,904</u>	<u>\$31,809,471</u>
Capital assets					
Leasehold improvements		\$699,212	\$1,355,429	\$1,355,429	\$1,355,429
Depreciation -leasehold improvements			(90,362)	(177,821)	(268,183)
Net leasehold improvement totaloffice furniture total		<u>\$699,212</u>	<u>\$1,265,067</u>	<u>\$1,177,608</u>	<u>\$1,087,246</u>
Office furniture		\$121,676	\$295,823	\$315,156	\$315,156
Depreciation - office furniture			(42,260)	(87,283)	(132,305)
Net office furniture total		<u>\$121,676</u>	<u>\$253,563</u>	<u>\$227,873</u>	<u>\$182,851</u>
Office equipment		\$22,765	\$33,379	\$82,673	\$82,673
Depreciation - office equipment			(4,768)	(16,579)	(28,390)
Net office equipment total		<u>\$22,765</u>	<u>\$28,611</u>	<u>\$66,094</u>	<u>\$54,283</u>
Total capital assets		<u>\$843,653</u>	<u>\$1,547,241</u>	<u>\$1,471,575</u>	<u>\$1,324,380</u>
Investments, at fair value					
Stocks	\$446,773,579	\$575,540,207	\$607,809,264	\$649,341,128	\$603,503,352
Mutual Funds	296,603,177				
Bonds	471,177,498	424,403,222	455,850,487	464,775,513	428,908,859
Real estate	29,871,370	54,269,398	69,341,967	101,055,111	123,381,407
Guaranteed investment contract	4,090,327	65,535,957	186,697,741	223,344,820	178,408,560
International stock		56,850,631	61,576,629	69,051,687	64,216,773
Hedge funds		\$1,176,599,415	\$1,381,276,088	\$1,507,568,259	\$1,398,418,951
Total investments	<u>\$1,248,515,951</u>	<u>118,206,648</u>	<u>172,338,228</u>	<u>215,754,226</u>	<u>87,597,652</u>
Securities lending collateral	202,110,275				
Total assets	<u>\$1,508,846,392</u>	<u>\$1,499,949,927</u>	<u>\$1,613,242,465</u>	<u>\$1,815,203,945</u>	<u>\$1,561,547,003</u>
Liabilities					
Securities lending collateral	\$202,110,275	\$118,206,648	\$172,338,228	\$215,754,226	\$87,597,652
Investments purchased	54,416,722	92,675,719	105,699,411	108,338,765	114,960,410
Administrative expenses payable	308,621	384,955	497,594	1,102,347	1,296,257
Investment management fees payable	1,236,844	769,026	787,958	544,735	993,026
Retirement allowance payable	3,122,366		260,708	500,303	
Other accounts payable	335,078	342,361	434,918	388,601	617,497
Total liabilities	<u>\$261,529,906</u>	<u>\$212,378,709</u>	<u>\$280,018,817</u>	<u>\$326,628,977</u>	<u>\$205,464,842</u>
Net assets held in trust for pension benefits	<u>\$1,247,316,486</u>	<u>\$1,287,571,218</u>	<u>\$1,333,223,648</u>	<u>\$1,488,574,968</u>	<u>\$1,356,082,161</u>

Employees' Retirement System
City of Baltimore, Maryland
Statement of Changes in Plan Net Assets
For the Last Ten Fiscal Years

	1999	2000	2001	2002	2003
Additions					
Contributions					
Employer	\$19,709,553	\$18,869,253	\$16,592,465	\$17,714,152	\$17,736,030
Plan members	341,481	457,620	381,124	864,270	526,918
Total contributions	<u>\$20,051,034</u>	<u>\$19,326,873</u>	<u>\$16,973,589</u>	<u>\$18,578,422</u>	<u>\$18,262,948</u>
Investment Income					
Net appreciation in fair value of investments	\$7,884,424	\$55,312,040	(\$58,275,242)	(\$71,950,424)	\$15,973,576
Interest, dividends, and real estate income	93,318,870	56,266,620	53,591,482	44,860,628	36,351,746
Less: investment expenses	(3,695,835)	(4,520,696)	(3,776,176)	(3,444,410)	(3,081,224)
Net investment income	<u>\$97,507,459</u>	<u>\$107,057,964</u>	<u>(\$8,459,936)</u>	<u>(\$30,534,206)</u>	<u>\$49,244,098</u>
Securities lending income		\$890,269	\$828,317	\$993,700	\$777,933
Securities lending fees		(267,068)	(288,009)	(298,042)	(232,922)
Net securities lending income		<u>\$623,201</u>	<u>\$540,308</u>	<u>\$695,658</u>	<u>\$545,011</u>
Total additions	<u>\$117,558,493</u>	<u>\$127,008,038</u>	<u>\$9,053,961</u>	<u>(\$11,260,126)</u>	<u>\$68,052,057</u>
Deductions					
Retirement allowances	\$71,247,537	\$74,757,885	\$77,268,674	\$80,623,760	\$82,854,969
Administrative expenses	1,239,812	1,501,828	1,887,026	1,265,645	945,073
Death benefits	1,213,641	609,813	1,514,343	1,834,181	1,729,237
Lump cash payments	355,602	165,794	215,953	287,314	311,763
Refund of Contributions	40,728	42,173	718	855	42,857
Total deductions	<u>\$74,097,320</u>	<u>\$77,077,493</u>	<u>\$80,886,714</u>	<u>\$84,011,755</u>	<u>\$85,883,899</u>
Net increase(decrease)	\$43,461,173	\$49,930,545	(\$71,832,753)	(\$95,271,881)	(\$17,831,842)
Net assets held in trust for pension benefits					
Beginning Balance	<u>\$1,286,008,520</u>	<u>\$1,329,469,693</u>	<u>\$1,379,400,238</u>	<u>\$1,307,567,485</u>	<u>\$1,212,295,604</u>
Ending Balance	<u>\$1,329,469,693</u>	<u>\$1,379,400,238</u>	<u>\$1,307,567,485</u>	<u>\$1,212,295,604</u>	<u>\$1,194,463,762</u>

Employees' Retirement System
City of Baltimore, Maryland

Statement of Changes in Plan Net Assets (continued)

For the Last Ten Fiscal Years

	2004	2005	2006	2007	2008
Additions					
Contributions					
Employer	\$17,352,473	\$23,624,914	\$31,003,063	\$36,841,351	\$43,918,411
Plan members	443,001	476,490	422,548	308,703	345,637
Total contributions	<u>\$17,795,474</u>	<u>\$24,101,404</u>	<u>\$31,425,611</u>	<u>\$37,150,054</u>	<u>\$44,264,048</u>
Investment Income					
Net appreciation in fair value of investments	\$92,483,936	\$80,660,869	\$79,600,767	\$177,595,751	(\$111,674,879)
Interest, dividends, and real estate income	35,587,011	31,462,451	36,965,510	47,136,147	46,115,481
Less: investment expenses	(3,821,829)	(3,097,848)	(5,464,823)	(5,684,475)	(6,275,603)
Net investment income	<u>\$124,249,118</u>	<u>\$109,025,472</u>	<u>\$111,101,454</u>	<u>\$219,047,423</u>	<u>(\$71,835,001)</u>
Securities lending income	\$642,610	\$442,098	\$548,678	\$468,902	\$1,001,675
Securities lending fees	(192,744)	(132,598)	(164,580)	(140,643)	(300,467)
Net securities lending income	<u>\$449,866</u>	<u>\$309,500</u>	<u>\$384,098</u>	<u>\$328,259</u>	<u>\$701,208</u>
Total additions	<u>\$142,494,458</u>	<u>\$133,436,376</u>	<u>\$142,911,163</u>	<u>\$256,525,736</u>	<u>(\$26,869,745)</u>
Deductions					
Retirement allowances	\$85,923,130	\$90,034,033	\$93,706,033	\$97,104,170	\$101,461,516
Administrative expenses	1,637,315	1,882,368	2,496,211	2,615,247	2,913,458
Death benefits	1,896,655	1,124,669	983,714	1,294,666	1,061,050
Lump cash payments	170,322	137,471	72,775	155,325	177,877
Refund of Contributions	14,312	3,103	-	5,008	9,161
Total deductions	<u>\$89,641,734</u>	<u>\$93,181,644</u>	<u>\$97,258,733</u>	<u>\$101,174,416</u>	<u>\$105,623,062</u>
Net increase(decrease)	\$52,852,724	\$40,254,732	\$45,652,430	\$155,351,320	(\$132,492,807)
Net assets held in trust for pension benefits					
Beginning Balance	<u>\$1,194,463,762</u>	<u>\$1,247,316,486</u>	<u>\$1,287,571,218</u>	<u>\$1,333,223,648</u>	<u>\$1,488,574,968</u>
Ending Balance	<u>\$1,247,316,486</u>	<u>\$1,287,571,218</u>	<u>\$1,333,223,648</u>	<u>\$1,488,574,968</u>	<u>\$1,356,082,161</u>

Employees' Retirement System
City of Baltimore, Maryland
REVENUES BY SOURCE

<u>Fiscal Year</u>	<u>Net Investment Income (Loss)</u>	<u>Employer Contributions</u>		<u>Member Contributions</u>	<u>Total Income (Loss)</u>
		<u>Amount</u>	<u>% of Covered Payroll</u>		
1999	\$97,507,459	\$19,709,553	6.5%	\$341,481	\$117,558,493
2000	107,681,165	18,869,253	6.1	457,620	127,008,038
2001	(7,919,628)	16,592,465	5.4	381,124	9,053,961
2002	(29,838,548)	17,714,152	5.8	864,270	(11,260,126)
2003	49,789,109	17,736,030	5.6	526,918	68,052,057
2004	124,698,984	17,352,473	5.4	443,001	142,494,458
2005	109,334,972	23,624,914	7.4	476,490	133,436,376
2006	111,485,552	31,003,063	9.3	422,548	142,911,163
2007	225,820,282	36,841,351	10.6	308,703	262,970,336
2008	(71,133,793)	43,918,411	11.5	345,637	(26,869,745)

Note: Employer contributions were made in accordance with actuarially determined contribution requirements.

Employees' Retirement System
City of Baltimore, Maryland
EXPENSES BY TYPE

<u>Fiscal Year</u>	<u>Benefits</u>	<u>Refunds</u>	<u>Administrative Expenses</u>	<u>Total</u>
1999	\$72,842,951	\$40,728	\$1,213,641	\$74,097,320
2000	75,533,492	42,173	1,501,828	77,077,493
2001	79,371,653	718	1,514,343	80,886,714
2002	82,176,719	855	1,834,181	84,011,755
2003	84,111,805	42,857	1,729,237	85,883,899
2004	87,730,767	14,312	1,896,655	89,641,734
2005	91,296,173	3,103	1,882,368	93,181,644
2006	94,762,522	-	2,496,211	97,258,733
2007	98,554,161	5,008	2,615,247	101,174,416
2008	102,700,443	9,161	2,913,458	105,623,062

Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ACTIVE MEMBERS BY YEARS OF SERVICE

<u>Years of Credited Service</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
0-4	2,703	2,567	2,396	2,292	2,351	2,401	2,572	2,188	2,124	2,306
5-9	1,420	1,357	1,397	1,537	1,798	1,876	1,708	1,833	1,789	1,812
10-14	2,452	2,417	2,169	1,765	1,300	996	896	940	1,093	1,304
15-19	1,777	1,497	1,304	1,331	1,585	1,755	1,684	1,560	1,286	949
20-24	1,278	1,438	1,516	1,447	1,343	1,244	1,201	918	974	1,166
25-29	865	932	947	905	880	847	784	1042	1036	976
30+	<u>284</u>	<u>385</u>	<u>494</u>	<u>550</u>	<u>574</u>	<u>603</u>	<u>567</u>	<u>712</u>	<u>733</u>	<u>767</u>
Total Members	<u>10,779</u>	<u>10,593</u>	<u>10,223</u>	<u>9,827</u>	<u>9,831</u>	<u>9,722</u>	<u>9,412</u>	<u>9,193</u>	<u>9,035</u>	<u>9,280</u>
Average Service Credit	12.61	13.07	13.39	13.50	13.36	13.35	13.58	13.80	13.83	13.56
Average Age	45.69	46.32	46.86	47.08	47.34	47.51	47.89	48.32	48.64	48.66

Employees' Retirement System

City of Baltimore, Maryland

SCHEDULE OF RETIREES BY ATTAINED AGE AND TYPE OF RETIREMENT

June 30, 2008

<u>Age</u>	<u>Number of Recipients</u>	<u>TYPE OF RETIREMENT*</u>				
		<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
30-39	27	1		1	25	
40-44	111	1		39	69	2
45-49	315	68		112	126	9
50-54	755	242	178	169	161	5
55-59	1027	420	311	166	123	7
60-64	1251	579	410	138	111	13
65-69	1213	576	404	137	85	11
70-74	996	472	360	103	48	13
75-79	855	528	216	69	24	18
80-84	517	357	121	22	13	4
85 and up	218	<u>203</u>	<u>6</u>	<u>2</u>	<u>5</u>	<u>2</u>
Totals	<u>7,285</u>	<u>3,447</u>	<u>2,006</u>	<u>958</u>	<u>790</u>	<u>84</u>
Average Annual Benefit	\$12,893	\$16,932	\$5,960	\$16,756	\$7,668	\$17,839

***Type of Retirement**

0 - Normal retirement for age and service

1 - Early retirement

2 - Discontinued service retirement

3 - Non-line-of-duty disability

4 - Line-of-duty disability

Employees' Retirement System
City of Baltimore, Maryland

SCHEDULE OF BENEFICIARIES BY ATTAINED AGE AND TYPE OF RETIREMENT

June 30, 2008

Age	Number of Recipients	TYPE OF RETIREMENT*							
		<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>8</u>	
0-24	23	5	1	2	13		2		
25-29									
30-34									
35-39									
40-44	5	1	1		2	1			
45-49	18	4	2	1	9		2		
50-54	45	19	4	3	11		8		
55-59	85	34	7	8	30		5		1
60-64	97	40	14	12	18	4	8		1
65-69	152	58	22	12	36	2	19		3
70-74	202	89	51	7	33	1	18		3
75-79	229	127	45	11	22	5	17		2
80-84	243	131	52	4	32	1	16		7
85 and up	254	176	22	7	20	5	15		9
Totals	1,353	684	221	67	226	19	110	26	
Average Annual Benefit	\$7,065	\$8,306	\$3,117	\$7,881	\$4,448	\$7,537	\$9,150	\$19,482	

*Type of Retirement

0 - Normal retirement for age and service

1 - Early retirement

2 - Discontinued service retirement

3 - Non-line-of-duty disability

4 - Line-of-duty disability

5 - Non-line-of-duty death, member eligible for service retirement at death

8 - Line-of-duty death

Employees' Retirement System
City of Baltimore, Maryland
BENEFIT EXPENSES BY TYPE

Year Ending	Age and Service Benefits			Death Benefits			Disability Benefits			
	Retirees	Beneficiaries	Lump Sum	Duty	Non-Duty	Lump Sum	Retirees		Beneficiaries	
							Duty	Non-Duty		
1999	\$ 61,528,629	\$ 3,426,458	\$ 355,602	\$ 676,329	\$ 821,190	\$ 411,891	\$ 1,545,164	\$ 3,331,260	\$ 746,428	\$ 72,842,951
2000	63,212,361	4,283,950	165,794	655,266	817,664	360,918	1,511,295	3,673,671	852,573	75,533,492
2001	66,714,579	3,969,755	215,953	755,822	801,375	558,783	1,525,524	4,010,065	819,797	79,371,653
2002	68,940,301	4,121,599	287,314	726,433	848,808	450,464	1,486,797	4,423,073	891,930	82,176,719
2003	70,560,229	4,564,997	311,763	677,107	826,497	374,450	1,442,354	4,461,284	893,124	84,111,805
2004	73,208,782	4,905,876	170,322	680,257	899,065	300,153	1,462,961	5,159,191	944,160	87,730,767
2005	76,164,209	5,322,454	137,471	739,882	953,954	504,029	1,486,171	5,044,970	943,033	91,296,173
2006	79,170,397	5,615,443	72,775	726,565	835,966	632,410	1,463,097	5,249,509	996,360	94,762,522
2007	81,936,778	5,611,389	155,325	691,165	961,009	893,948	1,529,265	5,755,332	1,019,950	98,554,161
2008	85,680,282	6,378,604	324,170	516,418	981,229	177,877	1,503,083	5,994,761	1,144,019	102,700,443

Employees' Retirement System
City of Baltimore, Maryland
AVERAGE MONTHLY BENEFIT PAYMENTS

Retirement Effective Dates From July 1, 1998 to June 30, 2008	Years of Credited Service					
	5-10	11-15	16-20	21-25	26-30	31+
Period 7/1/98 to 6/30/99						
Average Monthly Benefit	\$ 251	\$ 375	\$ 490	\$ 820	\$ 1,048	\$ 1,231
Average-Average Final Compensation	3,014	4,494	5,879	9,840	12,580	14,777
Number of Active Retirees	32	47	48	58	49	23
Period 7/1/99 to 6/30/00						
Average Monthly Benefit	326	489	854	1,024	1,305	1,578
Average-Average Final Compensation	3,910	5,866	10,244	12,287	15,658	18,940
Number of Active Retirees	35	42	51	59	64	34
Period 7/1/00 to 6/30/01						
Average Monthly Benefit	229	367	818	1,016	1,279	1,543
Average-Average Final Compensation	2,752	4,410	9,820	12,193	15,343	18,513
Number of Active Retirees	37	57	67	64	70	50
Period 7/1/01 to 6/30/02						
Average Monthly Benefit	249	439	721	1,056	1,305	1,727
Average-Average Final Compensation	2,990	5,266	8,647	12,669	15,664	20,722
Number of Active Retirees	38	60	81	70	105	54
Period 7/1/02 to 6/30/03						
Average Monthly Benefit	243	455	792	1,070	1,365	1,627
Average-Average Final Compensation	2,922	5,460	9,504	12,839	16,385	19,528
Number of Active Retirees	31	47	44	71	89	71
Period 7/1/03 to 6/30/04						
Average Monthly Benefit	385	452	773	1,101	1,506	1,742
Average-Average Final Compensation	4,615	5,427	9,277	13,214	18,069	20,900
Number of Active Retirees	42	56	69	66	91	89

Employees' Retirement System
City of Baltimore, Maryland
AVERAGE MONTHLY BENEFIT PAYMENTS (continued)

Retirement Effective Dates From July 1, 1998 to June 30, 2008	Years of Credited Service					
	<u>5-10</u>	<u>11-15</u>	<u>16-20</u>	<u>21-25</u>	<u>26-30</u>	<u>31+</u>
Period 7/1/04 to 6/30/05						
Average Monthly Benefit	318	553	649	1,126	1,493	1,719
Average-Average Final Compensation	3,813	6,635	7,794	13,515	17,916	20,630
Number of Active Retirees	45	55	71	57	72	94
Period 7/1/05 to 6/30/06						
Average Monthly Benefit	340	511	767	1,076	1,503	1,613
Average-Average Final Compensation	4,082	6,133	9,202	12,912	18,037	19,353
Number of Active Retirees	37	19	44	41	50	145
Period 7/1/06 to 6/30/07						
Average Monthly Benefit	274	247	623	1,325	1,191	1,308
Average-Average Final Compensation	3,289	2,967	7,473	15,906	14,291	15,692
Number of Active Retirees	18	14	27	21	25	227
Period 7/1/07 to 6/30/08						
Average Monthly Benefit	278	379	868	1,191	1,575	1,841
Average-Average Final Compensation	3,331	4,546	10,411	14,291	18,903	22,097
Number of Active Retirees	39	40	44	45	48	89
Period 7/1/98 to 6/30/08						
Average Monthly Benefit	\$ 293	\$ 437	\$ 739	\$ 1,060	\$ 1,370	\$ 1,574
Average-Average Final Compensation	3,517	5,241	8,863	12,723	16,435	18,892
Number of Active Retirees	354	437	546	552	663	876



Shelle Dixon
MAYOR

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EMPLOYEES' RETIREMENT SYSTEM

of the CITY OF BALTIMORE

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